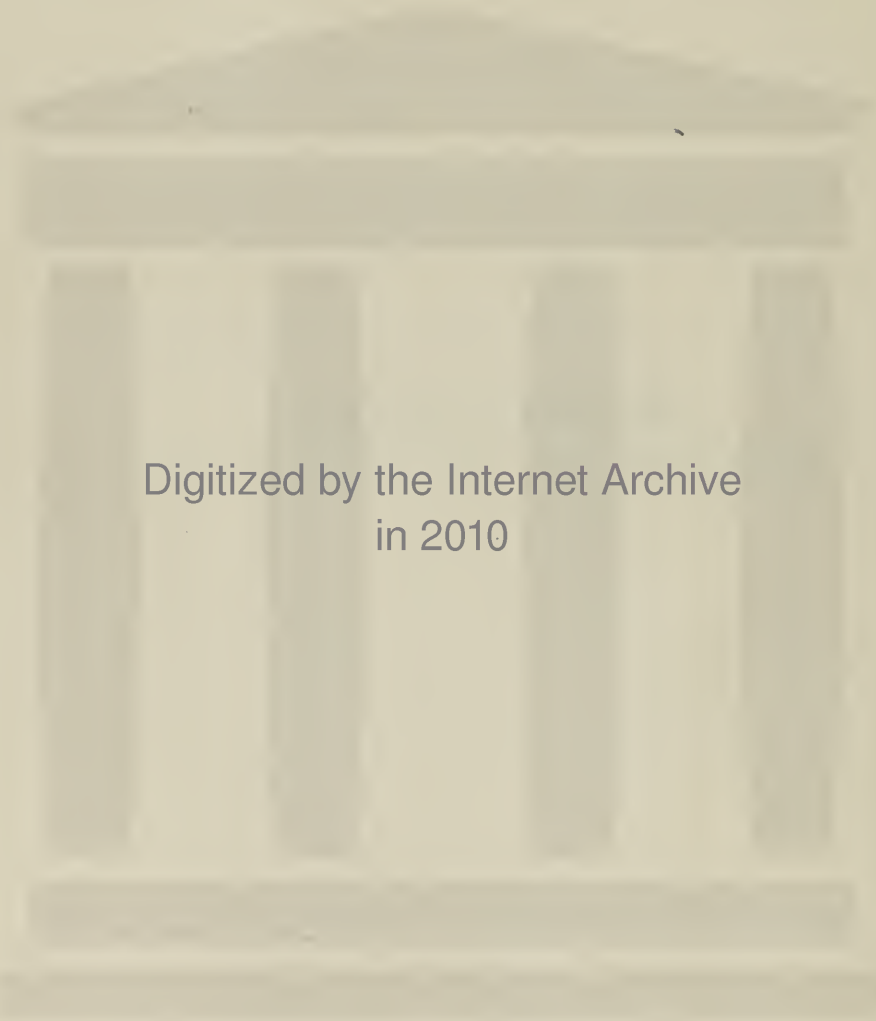
BOOKKEEPING
PRINCIPLES AND PRACTICE

ROSENKAMPFF AND WALLACE

ADVANCED COURSE

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BOOKKEEPING

PRINCIPLES AND PRACTICE

ADVANCED COURSE

BY

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PREFACE

This text continues the presentation of the principles and practices of bookkeeping and accounting begun in the Introductory Course. The same general plan of development has been followed as in the introductory text. Chapters have been kept comparatively short and have been arranged to provide for intensive study of closely related topics. The questions and exercises following each chapter have been made ample and have been carefully graded for drill and review.

The material in the text is intended to provide for two years' study of advanced bookkeeping and accounting, and presupposes a mastery of the elementary phases of the subject. A feature of the text, however, is the provision made, in Chapter I, for a brief review of the fundamental principles and forms of elementary bookkeeping. Altogether, the material in the text may be considered as falling into two main divisions. The first nineteen chapters comprise Part I, which embraces those phases of advanced bookkeeping ordinarily included in the course of study of the second year. The remainder of the text, Part II, is devoted to third-year work and leads the student into the elementary phases of accounting. In connection with the foregoing division of the text, it should be said that there is bound to be a certain amount of overlapping. Some phases of partnership accounting, particularly in the chapter on dissolution of partnerships, may be found too difficult for second-year students and may well be deferred until the third year.

Throughout the text, emphasis is placed upon the importance of bookkeeping and accounting records and reports, as an aid to intelligent management of a business enterprise. A large share of the text is devoted to a study of the partnership and the corporation, and the problems incident to

accounting for these two important legal types of business organization. Chapter XI is devoted to the analysis of financial statements, with a view to acquainting the student with the basic principles of statement analysis, in judging the financial condition of a business and the results of management policies.

The two chapters on business practices and forms in the introductory text have been included, with some additions, in this volume. These are Chapters XVII and XVIII. This important material is thus made available to both the elementary and advanced students.

In addition to the problems and exercises which follow the chapters, three practice sets have been included in the text. These are found in Chapters V, XV, and XXVII. *Business Practice Set, No. 2,* which should be worked following Chapter XVIII, has been designed for use with business papers and forms.

The authors desire to acknowledge their indebtedness to many successful teachers, accountants, and business men who rendered assistance in the preparation of the manuscript. They are particularly indebted to the following persons for valuable criticisms and suggestions: Dean John T. Madden, of the School of Commerce, Accounts and Finance, New York University; Mr. P. Myers Heiges, Instructor in Methods of Teaching Commercial Subjects, New York University; and Mr. R. J. Scott, Head of the Commercial Department of the Bayonne, N. J., High School.

A. H. Rosenkampff
W. C. Wallace

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BOOKKEEPING PRINCIPLES AND PRACTICE

Chapter I

A SURVEY OF ELEMENTARY BOOKKEEPING

The purpose of bookkeeping.—Books of account are kept in order to furnish information that will be useful in the management and control of a business enterprise. The desired information ordinarily comes to the manager in the form of written reports, or statements, prepared from records which have been kept of business transactions and events. His aim, primarily, is to conduct his business in such a way as to make it yield a profit; that is, he is constantly striving to increase the valuable properties which he has actively employed in his business, and also his interest in these properties.

The business reports, or statements, desired will therefore be in the nature of a summary of financial condition at a given date, and an analysis of changes in financial condition from time to time. Here we have, on one hand, the balance sheet, or statement of assets, liabilities, and proprietorship; and on the other hand, the statement of profit and loss, which provides an analysis of changes in proprietorship. It is the purpose of bookkeeping to provide information for the preparation of these statements.

The ledger.—The information necessary for the preparation of suitable financial statements comes from ledger accounts. These accounts are kept so as to provide a record of assets, liabilities, and proprietorship, and the changes which have taken place in these three fundamental elements. Ledger accounts, therefore, fall into three classes: asset accounts, liability accounts, and capital, or proprietorship, accounts.

The account form, with its debit and credit sides, is merely a convenient and economical means of making the additions

and subtractions necessary to record the changes in assets, in liabilities, and in capital. The number of accounts kept in a particular ledger will depend upon the nature and size of the business. In all instances, however, whether the accounts needed are few in number or many, these accounts are debited and credited under exactly the same circumstances. The principles upon which entries in ledger accounts are made may be summed up as follows:

Asset Accounts:

Debit asset accounts for all assets at the beginning of the period and for all *increases* in assets during the period.

Credit asset accounts for all *decreases* in assets during the period.

Liability Accounts:

Credit liability accounts for all liabilities at the beginning of the period and for all *increases* in liabilities during the period.

Debit liability accounts for all *decreases* in liabilities during the period.

Capital Accounts:

Credit capital accounts for the net worth of the owner (or owners) at the beginning of the period and for all *increases* in capital during the period.

Debit capital accounts for all *decreases* in capital during the period.

The asset and liability accounts required, even for a large business, are comparatively few in number. The capital element, however, may require many accounts, depending upon the nature of the transactions and the degree of analysis of changes in capital desired. The investment at the beginning of the accounting period is recorded on the credit side of the proprietor's Capital account. Changes in capital during the period due to business operations are recorded in temporary subdivisions of the Capital account. The balances of these temporary capital accounts are gathered together at the end of the period, by means of the Profit and Loss account, and their net result carried to the investment account.

Books of original entry.—Entries might be made directly in ledger accounts. This procedure is, however, inadvisable. Original entries are made in order to classify business transactions and events as to debits and credits in preparation for

GENERAL JOURNAL

May 1, 19—

	W. F. Wilson began business at 450 Main St. as a wholesale dealer in hardware. The following entry is made to record his assets, liabilities, and capital on this date:				
1	Cash (See C. B. 2)	4,671	50		
1	Notes Receivable	1,138	60		
1	Merchandise Inventory	2,575	00		
9	P. W. Ward	344	50		
9	E. R. Clancy	500	00		
2	Furniture & Fixtures	375	00		
2	Office Supplies	30	00		
4	Notes Payable			320	00
11	Jones & Rogers			840	00
11	Brown Bros.			675	00
4	W. F. Wilson, Capital			7,799	60
	—4—				
1	Notes Receivable	594	30		
7	W. R. Strong			594	30
	Received 60-day note, dated May 3, for invoice of May 3.				
	—5—				
10	W. N. Ferris	520	00		
4	Notes Payable			520	00
	Issued 30-day note, dated May 4, for invoice of May 4.				
	—12—				
1	Notes Receivable	477	55		
8	R. E. King & Co			477	55
	Received 30-day note, dated May 10, for invoice of that date.				
	—14—				
✓	Cash	995	00		
8	Interest Cost	5	00		
4	Notes Payable			1,000	00
	Discounted our 30-day note at the 1st National Bank. (See C. B. 2)				
	—20—				
✓	Cash	475	96		
8	Interest Cost	1	59		
1	Notes Receivable			477	55
	Discounted King & Co's. note, dated May 10, at the bank. (See C. B. 2)				
	—28—				
6	Sales Returns	18	50		
9	P. W. Ward			18	50
	Credit for merchandise returned.				
	—29—				
11	F. P. Meade	300	00		
4	Notes Payable			300	00
	Issued a 30-day note, dated May 25 for invoice of that date.				

CASH RECEIPTS

Date	F.	Accounts Cr.	Explanation	Net Cash	Accounts Rec.	Sales Discount	General
19—							
May 1	✓	Balance		4,671 50			
2	9	P. W. Ward	Invoice 4/29, net	344 50	344 50		
4	9	E. R. Clancy	Invoice 4/26, less 2%	490 00	500 00	10 00	
7	1	Notes Receivable	R. E. King's note of 3/8	846 99			838 60
7	5	Interest Earned	60 days on above at 6%				8 39
11	7	F. C. Church	Invoice 5/1, less 2%	359 37	366 70	7 33	
14	✓	Notes Payable	Discounted our 30-day note at 1st Natl. (See J. 1)	995 00			995 00
16	7	B. W. Simons	Invoice 5/6, net	685 00	685 00		
20	✓	Notes Receivable	King & Co.'s note disct'd. (See J. 1)	475 96			475 96
26	8	A. L. Wilson	Invoice 5/16, less 2%	501 17	511 40	10 23	
29	6	Sales	Cash sale	36 50			36 50
31	8	C. A. Orr	Invoice 5/21, less 2%	380 83	388 60	7 77	
31	✓	Totals		5,115 32	2,796 20	35 33	2,354 45
31	✓	Balance, May 1	brought down	4,671 50			
				9,786 82			
		Summary, May 31, 19—					
	1	Cash		5,115 32			
	5	Sales Discount		35 33			
	✓	Accounts Receivable			2,796 20		
	✓	General			2,354 45		
				5,150 65	5,150 65		
19—							
June 1	✓	Balance		6,174 69			

PURCHASE JOURNAL

Date	F.	Accounts Payable	Addresses	Terms	Invoice Date	Amount
19—					19—	
May 1	10	H. R. Adams	Utica, N. Y.	2/10, n/30	April 29	640 10
5	10	W. N. Ferris	Derby, Conn.	30-day note	May 4	520 00
10	10	E. C. Winn	Pittsburgh, Pa.	2/10, n/30	8	450 00
15	11	Jones & Rogers	Boston, Mass.	3/10, n/60	12	735 50
23	11	Brown Bros.	Buffalo, N. Y.	2/10, n/30	20	266 40
27	11	F. P. Meade	Toledo, Ohio	30-day note	25	300 00
31	12	H. F. Smith & Co.	Chicago, Ill.	2/10, n/30	37	484 60
31	4	Purchases, Dr.				3,396 60

transfer to ledger accounts by the process known as *posting*.

Books of original entry are known as *journals*. In a very small business, only one journal may be employed for all entries. When the entries to be made are numerous, it is advisable to segregate different types of entries so as to provide for a summary. This procedure will make the records more economical and will permit more than one bookkeeper to be at work on the books at one time.

CASH PAYMENTS

Date	F.	Accounts Dr.	Explanation	Net Cash	Accounts Payable	Purchase Discount	General
19—							
May 2	4	Rent	Sims Agency, for May	200 00			200 00
4	11	Jones & Rogers	Invoice 4/25, less 2%	823 20	840 00	16 80	
7	6	Office Salaries	For week	80 00			80 00
9	3	Notes Payable	Favor F. P. Meade, 4/9	321 60			320 00
9	6	Interest Cost	30 days on above, 6%				1 60
11	10	H. R. Adams	Invoice 5/1, less 2%	627 30	640 10	12 80	
14	6	Office Salaries	For week	80 00			80 00
15	3	W. F. Wilson, Personal	Withdrawal	50 00			50 00
20	10	E. C. Winn	Invoice 5/10, less 2%	441 00	450 00	9 00	
21	6	Office Salaries	For week	80 00			80 00
25	11	Jones & Rogers	Invoice 5/15, less 3%	713 43	735 50	22 07	
28	6	Office Salaries	For week	80 00			80 00
31	5	Delivery Expense	Bill, West Side Garage	41 50			41 50
31	5	Freight & Cartage Inward	On incoming goods	74 10			74 10
31	✓	Totals		3,612 13	2,665 60	60 67	1,007 20
31	✓	Balance		6,174 69			
				9,786 82			
		Summary, May 31, 19—					
	✓	General		1,007 20			
	✓	Accounts Payable		2,665 60			
	4	Purchase Discount			60 67		
	1	Cash			3,612 13		
				3,672 80	3,672 80		

SALES JOURNAL

Date	F.	Accounts Receivable	Addresses	Terms	Sales No.	Amount
19—						
May 1	7	F. C. Church	Hudson, N. Y.	2/10, n/30	51	366 70
3	7	W. R. Strong	Dover, N. J.	60-day note	52	594 30
6	7	B. W. Simons	155 Main St.	Net cash	53	685 00
10	8	R. E. King & Co.	Syracuse, N. Y.	30-day note	54	477 55
16	8	A. L. Wilson	Albany, N. Y.	2/10, n/30	55	511 40
21	8	C. A. Orr	Waterbury, Conn.	2/10, n/30	56	388 60
27	9	P. W. Ward	410 E. King St.	3/10, n/60	57	282 25
31	9	S. W. Cope	Newark, N. J.	2/10, n/30	58	420 00
31	6	Sales Cr.				3,725 80

The practice of segregating entries of the same kind gives rise to the use of special journals. The special journals commonly used are the purchase journal, the sales journal, and the cash journal. The entries which cannot be made in any of these special journals are recorded in the original journal, now to be referred to as the general journal.

The forms of the four journals mentioned above are shown on pages 3–5.

The bookkeeping cycle.—Bookkeeping provides a record of business transactions and events. The information needed for the records in books of account is provided by business papers and forms known as *vouchers*. Many of these vouchers are in the form of standardized communications, such as purchase and sales invoices and credit memoranda. Others are negotiable instruments, such as checks, notes, and drafts. Other business forms of a miscellaneous nature may support bookkeeping entries. Their form and use will vary, depending upon the particular business in which they are found.

Following the record in books of original entry, such as those already described in this chapter, the ledger provides a means of summarizing debits and credits in the form of accounts. The mathematical accuracy of the ledger is tested periodically by the bookkeeper, usually at the end of each month after the posting to ledger has been completed for the month.

Financial statements are prepared regularly, and more or less frequently, but not necessarily at the end of each month. When statements and reports are desired, the list of accounts shown in the trial balance and certain additional facts not shown by the trial balance serve as a basis for the work of preparing the statements. Since some facts not already recorded in the books have been taken into consideration in the preparation of statements of results, it follows that the ledger is not altogether in agreement with the statements. Hence final entries, known in bookkeeping as " adjusting " and " closing " entries, are required to complete the records for the fiscal period. Such final entries are made in the general journal and are posted to the ledger.

The bookkeeping cycle outlined above may be summed up as follows:

1. Original entries made in various journals and supported by business vouchers.
2. Posting of the debits and credits from the various journals to ledger accounts.
3. The preparation of the Trial Balance in order to test the accuracy of the ledger.
4. The preparation of statements and reports (the Balance Sheet and the Statement of Profit and Loss) from the

financial facts already recorded and from additional information.

5. The preparation of the final journal entries—the so-called " adjusting " and " closing " entries.
6. Posting of final entries and the completion of the periodic work on the ledger, such as the ruling off and the balancing of the accounts.

The financial statements.—The preparation of the Balance Sheet and of the Statement of Profit and Loss is essentially a problem in arithmetic. The problem is afforded by records that have been kept and by such additional facts as must be taken into consideration at the end of the fiscal period.

The following trial balance and additional information will serve as a basis for the Statement of Profit and Loss and the Balance Sheet to be illustrated:

F. P. LANDON

Trial Balance, June 30, 19—

	Cash	7,800	00		
	Notes Receivable	1,500	00		
	Merchandise Inventory, Jan. 1, 19—	2,750	00		
	Furniture and Fixtures	450	00		
	Motor Trucks	1,200	00		
	Purchases	9,877	50		
	Freight and Cartage Inward	144	70		
	Purchase Returns			82	50
	Sales			13,960	75
	Sales Returns	110	00		
	Notes Payable			1,950	00
	F. P. Landon, Capital			8,702	15
	F. P. Landon, Personal	100	00		
	General Expense	41	50		
	Office Supplies	32	00		
	Rent	600	00		
	Salaries	450	00		
	Sales Discounts	177	50		
	Interest and Discount Cost	21	00		
	Interest and Discount Earned			26	50
	Purchase Discounts			366	70
	C. E. Allen	450	00		
	F. W. Cranston	388	25		
	L. R. Ewing	165	50		
	James Dutton & Co			539	75
	W. E. Simpson			629	60
		26,257	95	26,257	95

Additional information at June 30:

Merchandise Inventory	$2,600.00
Furniture & Fixtures, book value less 10%	
Motor Trucks, book value less 15%	
Office Supplies	10.00

The Balance Sheet of F. P. Landon at June 30, 19—, follows:

F. P. LANDON

Balance Sheet, June 30, 19—

Assets			
Cash	$7,800 00		
Notes Receivable	1,500 00		
Accounts Receivable	1,003 75		
Merchandise Inventory	2,600 00		
Furniture and Fixtures	405 00		
Motor Trucks	1,020 00		
Office Supplies Inventory	10 00		
Total Assets		$14,338	75
Liabilities			
Notes Payable	$1,950 00		
Accounts Payable	1,169 35		
Total Liabilities		$3,119	35
Proprietorship			
F. P. Landon, Capital, Jan. 1, 19—	8,702 15		
Add—Net Profit $2,617.25			
Less—drawings 100.00	2,517 25		
Net Worth, June 30, 19—		11,219	40
Total Liabilities and Proprietorship		$14,338	75

The Statement of Profit and Loss of F. P. Landon for the six-months' period, January 1 to June 30, is as follows:

F. P. LANDON

Statement of Profit and Loss for the Six Months Ended June 30, 19—

Gross Sales		$13,960	75	
Less—Sales Returns		110	00	
Net Sales				$13,850 75
Cost of Goods Sold:				
Merchandise Inventory, 1/1/19—		2,750	00	
Purchases	$9,877.50			
Less—Purchase Returns	82.50	9,795	00	
Freight and Cartage Inward		144	70	
Total Merchandise Cost		12,689	70	
Less—Inventory 6/30/19—		2,600	00	
Cost Goods Sold				10,089 70
Gross Trading Profit				3,761 05
Operating Expenses:				
General Expense		41	50	
Office Supplies		22	00	
Rent		600	00	
Salaries		450	00	
Depreciation of Furniture and Fixtures		45	00	
Depreciation of Motor Trucks		180	00	
Total Operating Expenses				1,338 50
Operating Income				2,422 55
Other Income:				
Interest and Discount Earned		26	50	
Purchase Discounts		366	70	
Total Other Income				393 20
Total Income				2,815 75
Deductions from Income:				
Interest and Discount Cost		21	00	
Sales Discounts		177	50	
Total Deductions from Income				198 50
Net Profit				$2,617 25

The adjusting entries.—Theoretically, all the records for the period under consideration have been made before the Balance Sheet and the Statement of Profit and Loss are prepared. In practice, however, it is customary to prepare the statements after the trial balance has been taken, after which the final entries are made to complete the books for the period.

The final entries, made after the preparation of the statements, are commonly thought of as falling into two classes:

the adjusting entries and the closing entries. The adjusting entries to be made in the general journal and posted to the ledger of F. P. Landon are as follows:

GENERAL JOURNAL

June 30, 19—

	Purchases		2,750 00	
	Merchandise Inventory			2,750 00
	To add the inventory at January 1 with the purchases for the period.			
	—30—			
	Merchandise Inventory		2,600 00	
	Purchases			2,600 00
	To deduct the inventory at June 30 and set up the new inventory account.			
	—30—			
	Furniture and Fixtures (new)		405 00	
	Motor Trucks (new)		1,020 00	
	Office Supplies (new)		10 00	
	Furniture and Fixtures (old)			405 00
	Motor Trucks (old)			1,020 00
	Office Supplies (old)			10 00
	To adjust the above accounts in accordance with the inventories at June 30.			

The closing entries.—The purpose of the closing entries is to summarize the capital element by gathering together all changes in capital in such a way as to show the net profit, or net loss, in the Profit and Loss account. The balance of this latter account is carried to the proprietor's Personal account, which in turn is closed into the proprietor's Capital account. Thus the net worth of the proprietor is finally shown in one place and in one amount.

The closing entries are made in the general journal following the adjusting entries. On page 11 are shown the entries to complete the ledger of F. P. Landon at June 30:

	—30—				
Sales		110	00		
Sales Returns				110	00
To deduct the sales returns from the sales.					
	—30—				
Purchase Returns		82	50		
Purchases				82	50
To deduct the purchase returns from the purchases.					
	—30—				
Purchases		144	70		
Freight and Cartage Inward				144	70
To add the freight and cartage to the purchases.					
	—30—				
Sales		10,089	70		
Purchases				10,089	70
To record the cost of sales for the period.					
	—30—				
Sales		3,761	05		
Profit and Loss				3,761	05
To transfer the gross profit on sales to the Profit and Loss account.					
	—30—				
Profit and Loss		1,338	50		
General Expense				41	50
Office Supplies				22	00
Rent				600	00
Salaries				450	00
Furniture and Fixtures				45	00
Motor Trucks				180	00
To summarize the operating expenses in the Profit and Loss account.					
	—30—				
Interest and Discount Earned		26	50		
Purchase Discount		366	70		
Profit and Loss				393	20
To summarize other income in the Profit and Loss account.					
	—30—				
Profit and Loss		198	50		
Interest and Discount Cost				21	00
Sales Discount				177	50
To summarize deductions from income in the Profit and Loss account.					
	—30—				
Profit and Loss		2,617	25		
F. P. Landon, Personal				2,617	25
To transfer the net profit to the proprietor's Personal account.					
	—30—				
F. P. Landon, Personal		2,517	25		
F. P. Landon, Capital				2,517	25
To transfer the net credit from the Personal account to the Capital account.					

Review Questions

1. What is the chief purpose of bookkeeping records?

2. In what form is information about a business enterprise usually placed before the manager?

3. Explain the function of the ledger.

4. What is meant by a book of original entry?

5. Name the books of original entry that you have studied and explain the function of each.

6. What chief purpose is served by the Trial Balance? How often should it be prepared?

7. When statements of results are being prepared, what use is made of the Trial Balance?

8. Does the Trial Balance ordinarily show all the information necessary for the preparation of financial statements? Explain fully.

9. Explain what is meant by calling the Statement of Profit and Loss an analysis of changes in capital.

10. What is meant by the expression "closing the ledger?"

11. Explain what is meant by "adjusting entries;" "closing entries."

12. Name the different sections of the Statement of Profit and Loss, and name at least two accounts which are properly classed as belonging to each of these sections.

Exercises

1. Record the following transactions in a special-column cashbook with columns arranged as follows: *receipts side*—Net Cash, Accounts Receivable, Sales Discount, General; *payments side*—Net Cash, Accounts Payable, Purchase Discount, General.

May 1, 19—. Balance, $8,925.10.

2. Paid H. R. Cole for May rent, by check, $170.

Received a check from D. C. Sutor for our invoice of April 24, $527.50 less 2%.

May 4. Paid R. W. Way & Co. by check for their invoice of April 25, $625 less 2%.
6. Received a check from H. P. Forbes for his 60-day note due to-day, $575.
7. Paid our 30-day note and interest due to-day in favor of the Merchants Bank; face of note, $1,000; interest at 6%.
Paid office salaries for the week, $75.
10. Paid freight on merchandise purchased, $19.75.
11. Received a check from L. R. Randall for our invoice of May 1, $642.50 less 2%.
Sold merchandise for cash, $11.55.
12. Paid S. R. Wood & Co. for their invoice of May 2, $600 less 2%.
13. Received a check from D. C. Sutor for his 60-day note of $450 due to-day with interest at 6%.
14. Paid office salaries for the week, $75.
The proprietor, H. F. Sands, withdrew cash for personal use, $100.
Paid for repairs to store shelves in cash, $15.
15. Bought office supplies for cash, $7.45.
Sold merchandise for cash, $12.50.

Close the cashbook properly and indicate the posting by means of summaries. Check the items not to be posted from the summaries. Bring down the cash balance.

2. Using a four-column cashbook, as described in question 1 above, record the following selected transactions:

June 1, 19—. Balance, $9,472.20.
Paid the Dell Realty Co. for June rent, $200.
2. Received a check from David Perry for our invoice of May 22, $377.50 less 2%.
3. Paid cash for hand-bills for advertising, $10.
Sold merchandise for cash, $19.50.
4. Paid R. E. Bain for their invoice of May 24, $510.40 less 3%.
Paid for cleaning windows, $8.50, cash.

June 6. Received a check from E. C. Miner for our invoice of May 28, $482.60, less 2%.
Sold merchandise for cash, $16.50.
7. Paid electric light bill for May, $5.90.
Paid salaries for the week, $100.
9. Received a check from M. A. Watson for his 30-day note of $500 due to-day with interest at 6%.
10. Bought letter files for office use, $7.10, cash.
12. Paid D. O. Roberts for his invoice of June 1, $490, less 2%.
14. Paid salaries for the week, $100.
Paid telephone bill by check, $6.50.
Sold merchandise for cash, $12.40.
15. Received a check from W. C. Lister for our invoice of June 5, $366.25, less 2%.
The proprietor, H. O. Wells, withdrew cash for personal use, $75.

Close and rule up the cashbook properly. Prepare summaries to indicate the posting. Bring down the cash balance.

3. On November 1, 19—, the balance sheet of W. R. Neil showed the following assets and liabilities: Cash, $9,640; Notes Receivable, $1,600; Merchandise Inventory, $6,740.50; Accounts Receivable (S. W. Wells, Buffalo, N. Y. invoice of October 27, terms 2/10, n/30, $985.00; and Wilson Bros. Syracuse, N. Y. invoice of October 29, terms 2/10, n/30, $1,170.50); Furniture and Fixtures, $300; Delivery Equipment, $1,000; Office Supplies, $27.50; Notes Payable, $1,750; Accounts Payable (C. E. Carson, Easton, Pa., his invoice of October 25, terms 3/10, n/60, $1,100; Fisk and Taylor, City, their invoice of October 28, terms 2/10, n/30, $784.50).

Open a new set of books for Mr. Neil, using a general journal, a purchase journal, a sales journal, and a cashbook with money columns arranged as follows: *receipts side*—Net Cash, Accounts Receivable, Sales Discount, General; *payments side*—Net Cash, Accounts Payable. Purchase Discounts, General.

Make the opening entry in the general journal, enter the cash balance in the cashbook, after which record the following transactions for the month of November:

Nov. 1. Paid rent for the month of November, $150.
Received invoice dated October 31 from Lane Bros., Hudson, N. Y., terms 2/10, n/30, $650.
2. Purchased office supplies for cash, $21.50.
4. Sold to R. W. Stringer, Albany, N. Y., terms 30-day note, merchandise $290.
Paid C. E. Carson for his invoice of October 25, $1,100 less 3%.
6. Received a check from S. W. Wells in payment of our invoice of October 27, $985 less 2%.
Received the 30-day note of R. W. Stringer, dated November 4, in settlement of our invoice of November 4, $290.
7. Received payment from D. E. Moore for his 20-day note due to-day, $810, with interest at 6%.
Paid Fisk and Taylor for their invoice of October 28, $784.50 less 2%.
Paid office salaries in cash, $56.
8. Sold merchandise to S. R. Wells, Buffalo, terms 2/10, n/30, $640.
Received a check from Wilson Bros. for our invoice of October 29, $1,170.50 less 2%.
9. Received invoice dated November 8 from H. F. Miller, Boston, Mass., terms, 2/10, n/30, $527.50.
Paid Lane Bros. for invoice of October 31, $650 less 2%.
11. Paid cash for supplies for the delivery truck, $21.10. (Use the General Expense account.)
12. Mr. Neil withdrew cash for personal use, $60.
14. Sold merchandise to Wilson Bros., Syracuse, N. Y., terms 3/10, n/60, $440.25.
15. Paid office salaries to date, $56.
17. Paid our note due to-day in favor of Brown & Co., $950.

Sent a check to H. F. Miller for his invoice of November 8, $527.50 less 2%.

Nov. 18. Sold merchandise to D. E. Moore, Rochester, N. Y., terms 2/10, n/30, $339.75.

Received a check from S. R. Wells for our invoice of November 8, $640 less 2%.

19. Discounted at the bank the note of R. W. Stringer, dated November 4 and received on November 6. The bank credited our account with the proceeds. (Use the general journal and the cashbook.)

21. Sold merchandise to S. R. Wells, Buffalo, terms 2/10, n/30, $521.10.

22. Paid office salaries in cash, $56.

24. Received a check from Wilson Bros. for invoice of November 14, $440.25 less 3%.

27. S. R. Wells returned part of the goods sold to him on November 24 and received credit for $40.

Received invoice from Fisk and Taylor dated November 25, terms 2/10, n/30, $669.60.

28. D. E. Moore paid for our invoice of November 18, $339.75 less 2%.

Paid cash for cleaning windows, $5.

29. Paid office salaries to date, $56.

Returned to Fisk and Taylor, City, a part of the merchandise purchased on November 27 and received credit for $37.50.

30. Mr. Neil withdrew cash, $50.

Sold merchandise to D. E. Moore, Rochester, N. Y. terms 2/10, n/30, $482.25.

Paid freight and cartage bills on incoming merchandise for the month, $93.85.

Summarize the special journals in preparation for posting. Bring down the cash balance after the cashbook has been summarized.

Post the entries to the ledger. In opening the ledger, place four accounts on each page, arranging them in the following order: Cash, Notes Receivable, Merchandise Inven-

tory, Furniture and Fixtures, Delivery Equipment, Rent, Office Supplies, General Expense, Office Salaries, W. R. Neil—Capital, W. R. Neil—Personal, Notes Payable, Purchases, Freight and Cartage In, Purchase Returns, Purchase Discount, Sales, Sales Returns, Sales Discounts, Interest and Discount Cost, Interest and Discount Earned, Profit and Loss, S. W. Wells, Wilson Bros., R. W. Stringer, D. E. Moore, C. E. Carson, Fisk & Taylor, Lane Bros., H. F. Miller.

Take a trial balance from the ledger when posting has been completed.

The inventories at November 30 were:

Merchandise	$6,850.00
Furniture and Fixtures at cost less 2%	
Delivery Equipment at cost less 3%	
Office Supplies	16.90

Prepare:

(a) A Balance Sheet at November 30, 19—.

(b) A Statement of Profit and Loss for the month ended November 30, 19—.

(c) The adjusting and closing entries necessary to complete the books at November 30.

Post the adjusting and closing entries. Rule off all the accounts that are in balance, and balance all the other accounts.

Check the balances of all accounts on the ledger with the Balance Sheet.

Chapter II

SUBSIDIARY LEDGERS AND CONTROLLING ACCOUNTS

The subdivision of the ledger.—Thus far, it has been shown that all the accounts needed to provide a classified summary of the debits and credits of business transactions may be kept in one ledger.

There are limitations, however, to the use of only one ledger. In a large business, particularly when goods are bought and sold on credit terms, the number of accounts may grow to the point where it would be inadvisable to keep them all in one ledger. Such a ledger would be very cumbersome to handle. Then, too, only one bookkeeper could work on it at one time.

The remedy, obviously, lies in the keeping of more than one ledger. This might easily be accomplished by dividing the accounts and placing them in two or more books. In effect, however, we should still have only one ledger; and the balances of all the accounts would have to be listed when testing the accuracy of the posting by means of the Trial Balance.

Since a division of the ledger accounts is desirable, a study of the situation should be made in order to determine a basis for dividing the accounts in a systematic way.

The basis for the subdivision of the ledger.—An examination of the average ledger will show that the accounts may be divided into three groups. The largest group of similar accounts will comprise the accounts kept with customers. Another large group will be made up of accounts with creditors. The third group will consist of accounts of a miscellaneous or general nature.

We have already learned to follow the plan of adding the balances of customers' accounts and creditors' accounts and showing them on the Balance Sheet under the titles "Ac-

counts Receivable" and "Accounts Payable," respectively. Here, then, is our basis for subdividing the ledger. The customers' accounts are to be removed and kept in a ledger by themselves; the creditors' accounts are to be removed to still another ledger; and the original ledger will now contain those accounts which are of a general nature.

Thus, under this plan, three ledgers are in operation, as follows:

1. A General Ledger, also known as the Main Ledger.
2. An Accounts Receivable Ledger, also known as a Customers' Ledger or a Sales Ledger.
3. An Accounts Payable Ledger, also known as a Creditors' Ledger or a Purchases Ledger.

The relationship of the ledgers.—When the accounts with customers and creditors are not kept in the General Ledger, it is evident that a Trial Balance can no longer be obtained from this one ledger. Under these circumstances, it is customary to have two accounts in the General Ledger, one called "Accounts Receivable" and the other "Accounts Payable," to represent the total of the balances of accounts with customers and creditors, respectively. These two accounts are set up at the time the individual customers' and creditors' accounts are removed to separate ledgers.

The two accounts mentioned above, the Accounts Receivable account and the Accounts Payable account, are known as "controlling" accounts. The Customers' Ledger and the Creditors' Ledger are known as "subsidiary" ledgers. They are, in other words, subordinate to the General Ledger and are controlled by the two summary accounts kept in the General Ledger. Since the two summary, or controlling, accounts represent a subsidiary ledger in each case, the Trial Balance may be taken from the General Ledger alone; and the subsidiary ledgers are tested at the same time by preparing a list or schedule of the accounts found in each of the subsidiary ledgers and making sure that the total agrees with the corresponding controlling account.

It will be the purpose of the subsequent chapter to deal with the operation of the books of account so as to bring about

the desired control of the subsidiary ledgers as the records are kept from month to month. For the present, we shall consider the bookkeeping steps involved in establishing a system of subsidiary ledgers and controlling accounts.

Subsidiary ledgers and controlling accounts illustrated.— Assume that the ledger of F. W. Canning contains the following accounts and balances on May 1, 19—:

Cash

19— May	1	Balance	✓	2,000	00						

Notes Receivable

19— May	1	Balance	✓	400	00						

R. W. Staples

19— May	1	Balance	✓	260	00						

F. E. Lane

19— May	1	Balance	✓	510	00						

H. W. Bowers

19— May	1	Balance	✓	600	00						

D. C. Woodin

19— May	1	Balance	✓	475	00						

Merchandise Inventory

19— May	1	Inventory	✓	3,500	00						

Furniture and Fixtures

19— May	1	Inventory		✓	300	00									

Office Supplies

19— May	1	Inventory		✓	40	00									

Notes Payable

							19— May	1	Balance		✓	750	00		

Brown & Taylor

							19— May	1	Balance		✓	390	00		

M. C. Brooks

							19— May	1	Balance		✓	560	00		

W. H. Ford

							19— May	1	Balance		✓	450	00		

E. R. Hill & Co.

							19— May	1	Balance		✓	300	00		

F. W. Canning, Capital

							19— May	1	Net Worth		✓	5,635	00		

Mr. Canning desires, before continuing the records for the month of May, to have the customers' and creditors' accounts transferred to separate ledgers and the proper controlling accounts set up in the General Ledger. Accordingly, the following entries are made in the General Journal:

GENERAL JOURNAL

May 1, 19—

Accounts Receivable		1,845 00	
R. W. Staples	$260.00		
F. E. Lane	510.00		
H. W. Bowers	600.00		
D. C. Woodin	475.00		
R. W. Staples			260 00
F. E. Lane			510 00
H. W. Bowers			600 00
D. C. Woodin			475 00
To transfer the above customers' accounts to the Accounts Receivable Ledger and to set up the controlling account in the General Ledger.			
—1—			
Brown and Taylor		390 00	
M. C. Brooks		560 00	
W. H. Ford		450 00	
E. R. Hill & Co		300 00	
Accounts Payable			1,700 00
Brown & Taylor	$390.00		
M. C. Brooks	560.00		
W. H. Ford	450.00		
E. R. Hill & Co	300.00		
To transfer the above creditors' accounts to the Accounts Payable Ledger and to set up the controlling account in the General Ledger.			

The posting of the foregoing journal entries will close all the customers' and creditors' accounts in the General Ledger. In place of these two groups of accounts will appear the proper controlling accounts.

The listing of the customers' and creditors' accounts under their respective controlling accounts in the journal entry provides for the proper posting to open the two new subsidiary ledgers.

After posting the journal entries already illustrated, the three ledgers will appear with the following accounts and balances:

GENERAL LEDGER

Cash

19—								
May	1	Balance	✓	2,000 00				

Notes Receivable

19—														
May	1	Balance	✓	400	00									

Accounts Receivable

19—														
May	1	Balance	J. 50	1,845	00									

Merchandise Inventory

19—														
May	1	Balance	✓	3,500	00									

Furniture and Fixtures

19—														
May	1	Balance	✓	300	00									

Office Supplies

19—														
May	1	Balance	✓	40	00									

Notes Payable

						19—								
						May	1	Balance	✓	750	00			

Accounts Payable

						19—								
						May	1	Balance	J. 50	1,700	00			

F. W. Canning, Capital

						19—								
						May	1	Net Worth	✓	5,635	00			

ACCOUNTS RECEIVABLE LEDGER

R. W. Staples

19—														
May	1	Balance	J. 50	260	00									

F. E. Lane

19— May	1	Balance		J. 50		510	00										

H. W. Bowers

19— May	1	Balance		J. 50		600	00										

D. C. Woodin

19— May	1	Balance		J. 50		475	00										

ACCOUNTS PAYABLE LEDGER

Brown and Taylor

								19— May	1	Balance		J. 50		390	00		

M. C. Brooks

								19— May	1	Balance		J. 50		560	00		

W. H. Ford

								19— May	1	Balance		J. 50		450	00		

E. R. Hill & Co.

								19— May	1	Balance		J. 50		300	00		

The trial balance of the general ledger.—The Trial Balance taken from the General Ledger of F. W. Canning will now appear as follows:

F. W. CANNING

Trial Balance, May, 1, 19—

Cash	2,000 00	
Notes Receivable	400 00	
Accounts Receivable	1,845 00	
Merchandise Inventory	3,500 00	
Furniture and Fixtures	300 00	
Office Supplies	40 00	
Notes Payable		750 00
Accounts Payable		1,700 00
F. W. Canning, Capital		5,635 00
	8,085 00	8,085 00

Proving the subsidiary ledgers.—The agreement of the subsidiary ledgers with their controlling accounts in the General Ledger is tested by means of abstracts, or schedules, showing the balances of the subsidiary ledger accounts and their totals.

The following are the abstracts prepared from the two subsidiary ledgers of F. W. Canning at May 1, 19—:

F. W. CANNING

Abstract of Accounts Receivable Ledger, May 1, 19—

R. W. Staples	260 00	
F. E. Lane	510 00	
H. W. Bowers	600 00	
D. C. Woodin	475 00	
Controlling Account, General Ledger		1,845 00

F. W. CANNING

Abstract of Accounts Payable Ledger, May 1, 19—

Brown and Taylor	390 00	
M. C. Brooks	560 00	
W. H. Ford	450 00	
E. R. Hill & Co	300 00	
Controlling Account, General Ledger		1,700 00

Modified forms of customers' and creditors' ledgers.—When customers' and creditors' accounts are kept in subsidiary ledgers, these ledgers are frequently of the loose-leaf type. Each account is given an entire page, and the accounts are

then arranged in alphabetical order for easy reference. New accounts may be readily placed in the right position by inserting new leaves in the binder, and closed or inactive accounts may be taken out and kept in a transfer binder until they may be needed again. The use of bookkeeping machines in the modern office makes the use of the loose-leaf type of ledger necessary. Cards are sometimes used instead of the usual ledger pages, and these are kept in a file for the purpose, rather than in a binder.

In connection with the use of loose-leaf and card systems, it should be noted that there are certain disadvantages. Ledger pages may be lost or may even be removed by unscrupulous persons; and in the case of card systems, the cards are likely to become badly worn and torn by frequent handling. The important financial accounts that make up the General Ledger are, therefore, more likely to be kept in bound book form than in a loose-leaf ledger.

In the subsidiary ledgers for customers and creditors, the ruling may depart from the standard form. What is known as the "balance-ledger" form may be employed. This form permits the balance of the account to be shown after each posting. This may be a distinct advantage when the balance of an account is required promptly.

The following illustrations show a customer's account and a creditor's account of the balance-ledger type:

Customer's Account—Balance Ledger

H. F. SINDEN
520 West 44 St., City
Rating A-1

Date		*Explanation*	*F.*	*Debits*	*Credits*	*Balance*
19—						
Dec.	1	Balance (from Gen. L.).....	J. 7			240 00
	4	2/10, n/30.....	S. 10	350 00		590 00
	10	30-day note.....	J. 8		240 00	350 00
	14	Cash (Disc't. $7.00)	C. 22		350 00	
	25	2/10, n/30.....	S. 11	187 50		187 50

Creditor's Account—Balance Ledger

NEW HAVEN ELECTRICAL CO.
910 YALE AVENUE
NEW HAVEN, CONN.

Date		Explanation	F.	Debits	Credits	Balance
19—						
Dec.	1	Balance (from Gen. L.)	J. 7			440 00
	10	3/10, n/60	P. 6		366 10	806 10
	15	Cash	C. 23	300 00		506 10
	15	20-day note	J. 8	140 00		366 10
	19	Cash (Disc't, $10.98)	C. 25	366 10		
	28	3/10, n/60	P. 7		285 25	285 25

Advantages of subsidiary ledgers and controlling accounts. The advantages of keeping subsidiary ledgers, controlled through the General Ledger, may be summed up as follows:

1. The ledgers are more convenient in size.
2. They provide for a division of labor among several bookkeepers.
3. The trial balance is shorter and more readily taken.
4. They provide a total of accounts receivable and of accounts payable. This information is needed in preparing the Balance Sheet.
5. Errors are more easily located because they are localized.
6. They enable a head bookkeeper to have a check upon the work of his assistants.

Review Questions

1. Name two disadvantages of having all the accounts of a business kept in one ledger.

2. Name two groups of similar accounts that are numerous in the average ledger.

3. What division of accounts would you suggest when it seems desirable to keep more than one ledger?

4. When more than one ledger is kept, do they in reality constitute only one ledger? Explain.

5. What is meant by a subsidiary ledger? A general, or main, ledger?

6. What relation exists between a subsidiary ledger and the general ledger?

7. What is meant by a controlling account? Mention two controlling accounts by name.

8. Explain how you would proceed to transfer the balances of customers' accounts to a subsidiary ledger.

9. Explain the procedure in transferring the balances of controlling accounts by name.

10. Can a Trial Balance be taken from a customers' ledger? From a creditors' ledger?

11. Why is the Trial Balance of the General Ledger considerably shortened when subsidiary ledgers and controlling accounts are kept?

12. How do you test the accuracy of the subsidiary ledgers?

13. What is meant by a loose-leaf ledger? A card ledger?

14. What are the advantages of loose-leaf and card systems? Have they any disadvantages? Explain.

15. Describe the ruling and operation of a balance-ledger.

16. What accounts are often kept in a balance-ledger?

17. Name six advantages of a system of subsidiary ledgers and controlling accounts.

Exercises

1. The following is a Trial Balance taken from the ledger of D. W. McKay at October 1, 19—:

D. W. McKAY

Trial Balance, October 1, 19—

Cash	5,450 00	
Notes Receivable	600 00	
H. F. Foster	388 70	
C. R. Madden	441 25	
James Rogers	316 40	
Merchandise Inventory	3,200 00	
Office Equipment	250 00	
Office Supplies	35 00	
D. W. McKay, Capital		8,177 85
Notes Payable		950 00
Lampton Brothers		660 00
A. J. Watson		475 00
F. T. Willets & Co		388 50
	10,651 35	10,651 35

Mr. McKay instructs his bookkeepers to transfer the accounts of customers and creditors to separate ledgers and to set up proper controlling accounts in the General Ledger.

Instructions:

1. Open a ledger showing all the accounts and balances at October 1, as shown by the Trial Balance. Allow five lines for each account.
2. Make the general journal entries necessary to transfer the customers' and creditors' accounts and to establish the controlling accounts. Explain the entries fully.
3. Post the journal entries, opening a new ledger for customers and another for creditors. (All ledger sheets and the journal page should be numbered so that postmarking may be done.)

   The two controlling accounts may be opened at the end of the General Ledger. To represent the two subsidiary ledgers, use a single ledger sheet, heading one side "Accounts Receivable Ledger" and the other, "Accounts Payable Ledger."
4. Take a Trial Balance from the General Ledger.
5. Prepare abstracts from the two subsidiary ledgers and show their agreement with the controlling account in each case.

2. H. W. Anderson uses three ledgers in his business, a General Ledger, a Customers' Ledger, and a Creditors' Ledger. The following accounts appeared in the three ledgers after posting had been completed at June 30, 19—:

Cash, $4,650.90; Notes Receivable, $735.50; Merchandise Inventory, Jan. 1, 19—, $2,250; Accounts Receivable, $2,672.60; Purchases, $4,788.10; Sales, $5,147.25; Salaries, $824; General Expense, $114; Delivery Equipment, $1,150; Notes Payable, $900; Accounts Payable, $1,963.40; H. W. Anderson, Capital, $9,306.35; H. W. Anderson, Personal (Debit), $125; Purchase Discounts, $112.10; Sales Discounts, $124.50; Interest Earned, $17.50; Interest Cost, $12.

The customers' accounts and balances were: D. J. Baker, $598.20; R. C. Cole, $639.50; A. E. Sinclair, $575; R. F. Smith, $688.60; L. W. Fenster, $171.30.

The creditors' accounts and balances were: Cranston & Co., $656.50; Simpson Bros., $750; H. Eaton & Co., $556.90.

Instructions:

1. Prepare the Trial Balance of the General Ledger.
2. Prepare the abstract of the Customers' Ledger.
3. Prepare the abstract of the Creditors' Ledger.

3. The following is the account of a customer kept in the standard form; rule a balance-ledger form and rewrite the account:

192 Front St. **H. A. Granger** **Buffalo, N. Y.**

19—						19—					
July	6	2/10, n/30	S. 5	464	10	July	10	Returns	J. 4	30	00
	14	2/10, n/30	S. 6	388	50		16	(Dis., $8.68)	C. 8	434	10
Aug.	10	2/10, n/30	S. 8	511	30	Aug.	12	30-day note	J. 5	388	50
							20	(Dis., $6.12)	C.10	306	12

4. Rule up a balance-ledger form and record therein the following dealings with a customer, F. C. Elliott, 592 Maple Avenue, Baltimore, Md.:

May 4, 19—. Sold him merchandise, terms 2/10, n/30, $187.50.

8. Sold him merchandise, terms half cash, balance a 30-day note, $362.20.

10. Received his check for $181.10, and his 30-day note for the same amount, in settlement of our invoice of May 8.
12. Sold him merchandise, terms 2/10, n/30, $234.50.
14. Received his check in settlement of our invoice of May 4, $187.50 less 2%.
16. Issued a credit memorandum to him for goods returned from our sale of May 12, $30.

5. Rule a balance-ledger page and record the following transactions with a creditor, James C. Moore, 560 Ohio Avenue, Toledo, Ohio:

March 10, 19—. Bought merchandise from him, terms 2/10, n/30, $388.
14. Received a credit memorandum for an allowance on purchase of March 10, $56.25.
17. Bought merchandise, terms 2/10, n/30, $431.75.
20. Sent a check in settlement of his invoice of March 10, $388, less allowance on March 14 and less 2%.

Chapter III

THE OPERATION OF CONTROLLING ACCOUNTS

The problem of subsidiary-ledger control.—The preceding chapter considered the advisability of keeping the accounts of customers and creditors in two ledgers separate from the General Ledger. Such ledgers are known as subsidiary ledgers; and, when they are thus kept, a definite relationship exists between each of these subsidiary ledgers and the General Ledger.

The entire Accounts Receivable Ledger is represented in the General Ledger by a summary account called "Accounts Receivable," and known as a controlling account. Likewise, the Accounts Payable Ledger is represented in the General Ledger by the controlling account called "Accounts Payable." These two controlling accounts preserve the balance of the General Ledger and permit a trial balance to be taken.

At the beginning of an accounting period, the balance of each controlling account is equal to the sum of all the balances in the particular subsidiary ledger to which it refers and which it "controls." The question now arises: "How may this control be maintained as posting is done throughout the course of each month's business?" The accounts of the customers and the creditors are likely to be changed by many postings; and, if the sum of the balances of accounts in each subsidiary ledger is found to be in agreement with the balances of its controlling account at the end of each month, it is evident that the controlling accounts have been subjected to the same changes. To understand how this may be done systematically, is to understand the operation of controlling accounts.

Sources of changes in accounts receivable.—The accounts of customers are affected by sales of merchandise to them on credit terms; by their settlement of these accounts in cash or by their giving of notes and drafts; and by returns of merchandise and allowances made for one reason or another.

A consideration of the journals to be used in making the original entries for the foregoing transactions with customers will result in the following classification of sources of postings to Accounts Receivable:

1. Sales Journal—for sales to customers on credit terms (*Debits*).
2. Cash Receipts Journal—for all settlements of customers' accounts by receipts of cash (*Credits*).
3 General Journal—for entries for notes and drafts received from customers and for entries for sales returns and sales allowances (*Credits*).

Sources of changes in accounts payable.—The creditors' accounts will be affected by entries for purchases of merchandise from them; by entries for settlements made by cash, by notes, and by drafts; and by entries for returned purchases and purchase allowances.

Thus we have the following classification of sources of postings to Accounts Payable:

1. Purchase Journal—for purchases of merchandise from creditors on credit terms (*Credits*).
2. Cash Payments Journal—for all settlements of creditors' accounts by payments of cash (*Debits*).
3. General Journal—for entries for notes and drafts sent to creditors and for entries for purchase returns and purchase allowances (*Debits*).

Only totals are posted to controlling accounts.—Obviously, all the journal entries affecting the customers' and creditors' accounts in the subsidiary ledgers must be posted individually to the particular accounts affected. In the controlling accounts, however, individual posting of the entries is not necessary. It is sufficient if the total of the entries posted from any journal to a subsidiary ledger finds its way to the proper controlling account in the General Ledger. The problem, then, in the operating of controlling accounts is to provide a means of arriving at the proper totals to be posted.

The different journals will now be considered for the purpose of determining whether changes in form and operation

are necessary in order to provide for the successful handling of the controlling accounts.

The sales journal and the Accounts Receivable controlling account.—The sales journal provides a means of recording, economically, all sales of merchandise to customers on credit terms. The sales journal entry differs from the entry in ordinary journal form only in that the credit to the Sales account is deferred until the addition of all the sales for the month gives the amount to be credited to the Sales account. This one credit to the Sales account equals all the debits which are posted to the various customers' accounts.

When a subsidiary ledger is kept for customers' accounts, the debits to the accounts with customers are posted from the sales journal to the subsidiary ledger, while the credit to the Sales account goes to the general ledger. In this same general ledger appears the controlling account which, we have learned, is to be in agreement with the subsidiary ledger when posting has been completed at the end of each month. Hence, the total of the sales journal for each month must be posted, not only to the credit side of the Sales account, but also to the debit side of the Accounts Receivable controlling account. Thus, the total of the sales journal is to be posted twice. This is done by means of a "summary entry" and is illustrated in connection with the following sales journal:

Sales Journal

Date	F.	Accounts Receivable	Addresses	Terms	Sales No.	Amount	Total
19—							
Oct. 1	2	J. A. Dolan	Brewster, N. Y.	2/10, n/30	101	360 00	
5	3	R. W. Hoyt	Rye, N. Y.	3/10, n/60	102	200 00	
12	7	F. R. Ward	Derby, Conn.	30-day note	103	500 00	
20	9	L. C. Smith	Easton, Pa.	2/10, n/30	104	450 00	
28	5	K. C. Sams	Bayonne, N. J.	2/10, n/30	105	190 00	
		Total					1,700 00
		Summary, October 31, 19—					
	1	Accounts Receivable				1,700 00	
	7	Sales					1,700 00

Posting the sales journal.—The following ledger accounts will illustrate the posting of the sales journal:

ACCOUNTS RECEIVABLE LEDGER

Brewster — J. A. Dolan — N. Y.

19—					
Oct.	1	2/10, n/30	S. 1	360	00

Rye — R. W. Hoyt — N. Y.

19—					
Oct.	5	3/10, n/60	S. 1	200	00

Derby — F. R. Ward — Conn.

19—					
Oct.	12	30-day note	S. 1	500	00

Easton — L. C. Smith — Pa.

19—					
Oct.	20	2/10, n/30	S. 1	450	00

Bayonne — K. C. Sams — N. J.

19—					
Oct.	28	2/10, n/30	S. 1	190	00

GENERAL LEDGER

Accounts Receivable

19—					
Oct.	31		S. 1	1,700	00

Sales

				19—				
				Oct.	31	S. 1	1,700	00

The cash receipts journal and the Accounts Receivable controlling account.—The special-column cash journal, presented in elementary bookkeeping and reviewed in Chapter I of this text, provides a column on the receipts side headed "Accounts Receivable." In this column is entered the full amount to be credited to each customer's account whenever

cash is received from him. In summarizing the cash journal, however, no use has been made of the total of this column up to this time except to show, in the summary, the equality of total debits and total credits. The item was, therefore, "checked" in the summary.

Now, however, this total of the Accounts Receivable column must be posted to the credit side of the Accounts Receivable controlling account in the General Ledger. This posting is necessary in order to preserve the control of the subsidiary ledger, since all amounts entered in the Accounts Receivable column of the cash journal will be posted individually to the customers' accounts. The procedure is also necessary to preserve the balance of the General Ledger.

The following is an illustration of the receipts side of the cash journal, showing the summary, with the total of the Accounts Receivable column to be posted to the Accounts Receivable controlling account in the General Ledger:

Page 2 — Cash Receipts

Date		F.	Accounts Credited	Explanation	Net Cash	Accounts Receivable	Sales Discount	General Ledger
19—								
Oct.	1	√	Balance		3,460 00			
	3	1	Notes Receivable	F. R. Ward's note due	250 00			250 00
	11	1	J. A. Dolan	Inv. 10/1, less 2%	352 80	360 00	7 20	
	15	2	R. W. Hoyt	Inv. 10/5, less 3%	194 00	200 00	6 00	
	19	7	Sales	Cash sale	60 00			60 00
	30	3	L. C. Smith	Inv. 10/20 less 2%	441 00	450 00	9 00	
	31	√	Totals		1,297 80	1,010 00	22 20	310 00
	31	√	Balance, October 1		3,460 00			
					4,757 80			
			Summary, October 31, 19—					
		1	Cash		1,297 80			
		8	Sales Discount		22 20			
		1	Accounts Receivable			1,010 00		
		√	General Ledger			310 00		
					1,320 00	1,320 00		
19								
Nov.	1	√	Balance		2,297 90			

Posting the cash receipts journal.—In posting the cash receipts journal, the amounts entered in the Accounts Receivable column are posted to the proper customers' accounts in the subsidiary ledger for customers; the amounts in the General Ledger column are posted individually to the accounts affected in the General Ledger; while the summary entry, except for the credit to "General Ledger" (already posted), is to be posted to the General Ledger accounts affected.

The posting of the foregoing cash receipts journal, both to the Accounts Receivable ledger and to the General Ledger, is illustrated below:

ACCOUNTS RECEIVABLE LEDGER

Brewster — **J. A. Dolan** — **N. Y.**

19—						19—					
Oct.	1	2/10, n/30	S. 1	360	00	Oct.	11	(Dis. $7.20)	C. 2	360	00

Rye — **R. W. Hoyt** — **N. Y.**

19—						19—					
Oct.	5	3/10, n/60	S. 1	200	00	Oct.	15	(Dis. $6.00)	C. 2	200	00

Derby — **F. R. Ward** — **Conn.**

19—					
Oct.	12	30-day note	S. 1	500	00

Easton — **L. C. Smith** — **Pa.**

19—						19—					
Oct.	20	2/10, n/30	S. 1	450	00	Oct.	30	(Dis. $9.00)	C. 2	450	00

Bayonne — **K. C. Sams** — **N. J.**

19—					
Oct.	28	2/10, n/30	S. 1	190	00

GENERAL LEDGER

Cash

19—					
Oct.	1	Balance	✓	3,460	00
	31	Receipts	C. 2	1,297	80

Notes Receivable

							19— Oct.	3		C. 2		250	00

Accounts Receivable

19— Oct.	31		S. 1	1,700	00		19— Oct.	31		C. 2	1,010	00	

Sales

							19— Oct.	1		S. 1	1,700	00	
								19		C. 2	60	00	

Sales Discount

19— Oct.	31		C. 2	22	20								

The purchase journal and the Accounts Payable controlling account.—The discussion of the form and operation of the sales journal, under a system of subsidiary ledgers and controlling accounts, indicates the proper handling of the purchase journal. This journal is now to be used in conjunction with a subsidiary ledger for Accounts Payable accounts and a summary account called " Accounts Payable," kept in the General Ledger.

The various amounts of purchases of merchandise on credit terms will, of course, be posted to the credit side of the individual accounts with creditors in the Accounts Payable ledger. The total amount of the purchases will be posted, as heretofore, to the debit side of the Purchases account at the end of each month. This same total must now be posted on the credit side of the Accounts Payable controlling account.

The posting to the General Ledger should be arranged for by a summary entry at the close of the purchase journal, each month. This procedure is illustrated in the following purchase journal:

Purchase Journal

Date	F.	Accounts Payable	Addresses	Terms	Invoice Date	Amount
19—					19—	
Oct. 3	2	M. W. Bruce	Buffalo, N. Y.	2/10, n/30	Oct. 1	480 00
10	2	J. W. Carr & Co.	Waterbury, Conn.	30 day note	7	350 00
19	3	R. C. Wanless	Pittsburgh, Pa.	3/10, n/60	17	600 00
27	3	W. D. Ong & Co.	Trenton, N. J	2/10, n/30	25	400 00
31		Total				1,830 00
		Summary, October 31, 19—				
	5	Purchases			1,830 00	
	3	Accounts Payable				1,830 00

Posting the purchase journal.—The posting of the foregoing purchase journal is illustrated as follows:

ACCOUNTS PAYABLE LEDGER

Buffalo — M. W. Bruce — N. Y.

19— Oct.	3	2/10, n/30	P. 1	480	00

Waterbury — J. W. Carr & Co. — Conn.

19— Oct.	10	30 day note	P. 1	350	00

Pittsburgh — R. C. Wanless — Pa

19— Oct.	19	3/10, n/60	P. 1	600	00

Trenton — W. D. Ong & Co. — N. J.

19— Oct.	27	2/10, n/30	P. 1	400	00

GENERAL LEDGER

Accounts Payable

19— Oct.	31		P. 1	1,830	00

Purchases

19— Oct.	31	P. 1	1,830	00	

The cash payments journal and the Accounts Payable controlling account.—On the payments side of the special-column cash journal, the Accounts Payable column is used to record the full amount to be debited to the account of each creditor who has received payment in cash. These amounts are to be posted individually to the creditors' accounts.

When only one ledger is used for all accounts, no use is made of the total of this column except in testing the equality of total debits and total credits in the summary entry. Now, however, since the amounts in the Accounts Payable column have been posted to the debit side of creditors' accounts in a subsidiary ledger, the total of the column must go to the debit side of the Accounts Payable controlling account in the General Ledger.

The following is an illustration of the payments side of the cash journal, showing the summary, with the total of the Accounts Payable column to be posted to the Accounts Payable account in the General Ledger:

Cash Payments Page 3

Date	F.	Accounts, Dr.	Explanation	Net Cash	Accounts Payable	Purchase Discount	General Ledger
19—							
Oct. 1	6	Rent	C. Cole for Oct.	200 00			200 00
7	3	Notes Payable	Favor Exch. Bank	1,000 00			1,000 00
12	1	M. W. Bruce	Inv. 10/3 less 2%	470 40	480 00	9 60	
15	5	Freight-In	On goods purchased	47 50			47 50
15	7	Salaries	To date	110 00			110 00
21	6	P. J. Duff, Pers.	Withdrawal	50 00			50 00
27	3	R. C. Wanless	Inv. 10/19 less 3%	582 00	600 00	18 00	
31	√	Totals		2,459 90	1,080 00	27 60	1,407 50
31	√	Balance		2,297 90			
				4,757 80			
		Summary, October 31, 19—					
	√	General Ledger		1,407 50			
	3	Accounts Payable		1,080 00			
	8	Purchase Discount			27 60		
	1	Cash			2,459 90		
				2,487 50	2,487 50		

Posting the cash payments journal.—The amounts entered in the Accounts Payable column are to be posted to the individual creditors' accounts in the Accounts Payable Ledger;

the amounts in the General Ledger column are to be posted individually to the accounts affected in the general ledger. The summary entry is posted to the General Ledger, except for the debit to "General Ledger," which indicates the total of amounts posted individually.

The posting of the cash-payments journal, to the Accounts Payable Ledger and the General Ledger, is here shown:

ACCOUNTS PAYABLE LEDGER

Buffalo — **M. W. Bruce** — **N. Y.**

19— Oct.	12	(Dis. $9.60)	C. 3	480	00	19— Oct.	3	2/10, n/30	P. 1	480	00

Waterbury — **J. W. Carr & Co.** — **Conn.**

						19— Oct.	10	30 day note	P. 1	350	00

Pittsburgh — **R. C. Wanless** — **Pa.**

19— Oct.	27	(Dis. $18)	C. 3	600	00	19— Oct.	19	3/10, n/60	P. 1	600	00

Trenton — **W. D. Ong & Co.** — **N. J.**

						19— Oct.	27	2/10, n/30	P. 1	400	00

GENERAL LEDGER

Cash

						19— Oct.	31	Payments	C. 3	2,459	90

Accounts Payable

19— Oct.	31		C. 3	1,080	00						

Notes Payable

19— Oct.	7		C. 3	1,000	00						

Freight-In

19— Oct.	15			C. 3		47	50												

Salaries

19— Oct.	15			C. 3		110	00												

Rent

19— Oct.	1			C. 3		200	00												

Purchase Discount

								19— Oct.	31			C. 3			27	60			

P. J. Duff, Personal

19— Oct.	21			C. 3		50	00												

The general journal and controlling accounts.—Most of the original entries affecting the various ledger accounts will, ordinarily, be entered in the sales journal, the purchase journal, and the cash journal. Some entries, however, cannot be made in these special journals. Thus the general journal will be used for opening entries, adjusting and closing entries, and for miscellaneous entries for which no special journal has been designed. Many of these entries will affect the accounts of customers and creditors, and hence will have to be posted to the subsidiary ledgers. Examples are seen in the case of entries for notes receivable, notes payable, and entries for purchase and sales returns and allowances.

The problem, then, in the operation of the general journal, is to find a means of arriving at the totals necessary for the purposes of the controlling accounts. In other words, we must know the total amount of all entries, debit or credit, that are posted to a subsidiary ledger, in order that the total

GENERAL JOURNAL

October 1, 19—

Accounts Payable	*General Ledger*	*F.*		*General Ledger*	*Accounts Receivable*
			P. J. Duff began business on this date as a wholesale dealer in hardware. The following entry is made to record his assets, liabilities and capital:		
	3,460 00	1	Cash (See C. B. 2)		
	800 00	1	Notes Receivable		
	915 00	1	Accounts Receivable		
		1	S. T. Ferris $375.00		
		1	H. E. Banks 540.00		
	3,000 00	2	Merchandise Inventory		
	300 00	2	Office Equipment		
		3	Notes Payable	1,200 00	
		3	Accounts Payable	830 00	
		1	J. L. Barnes 560.00		
		1	F. J. Caley 270.00		
		4	P. J. Duff, Capital	6,445 00	
			—12—		
350 00		2	J. W. Carr & Co.		
		3	Notes Payable	350 00	
			Issued a 30-day note in settlement for their invoice of Oct. 10.		
			—14—		
	500 00	1	Notes Receivable		
		5	F. R. Ward		500 00
			Received his 30-day note in settlement for invoice of Oct. 12.		
			—30—		
	40 00	7	Sales Returns		
		5	K. C. Sams		40 00
			Issued a credit memorandum for goods returned to us.		
			—31—		
27 50		3	W. D. Ong & Co.		
		6	Purchase Returns	27 50	
			For part of purchase of Oct. 27 returned.		
377 50	9,015 00			8,852 50	540 00
			Summary, October 31, 19—		
	377 50	3	Accounts Payable		
	9,015 00	✓	General Ledger		
		✓	General Ledger	8,852 50	
		1	Accounts Receivable	540 00	
	9,392 50			9,392 50	

may be carried to the proper controlling account in the General Ledger.

The ordinary form of the general journal is not so arranged that columns can be added to obtain the required totals of amounts posted to the Accounts Receivable Ledger and to the Accounts Payable Ledger. Only one debit and one credit column are provided, and miscellaneous entries are made in each. The solution to the problem lies in the introduction of special columns so that entries which are to be posted to the subsidiary ledger accounts may be segregated. These columns may then be added and the required totals obtained.

In the illustration of the general journal on page 43, we have a form commonly referred to as a "divided" journal. The introduction of special columns, headed Accounts Receivable and Accounts Payable, will result in two debit columns and two credit columns. Other columns may be added, as will be considered later. The debit columns are placed at the left of the page and the credit columns at the right, leaving the space between for the dates, entries, and explanations. The summary entry at the end indicates the proper posting to the General Ledger Accounts.

Posting the general journal.—The amounts entered in the special columns, Accounts Receivable and Accounts Payable, are posted to the proper customers' and creditors' accounts in the subsidiary ledgers. The amounts entered in the General Ledger columns are posted to the respective accounts in the General Ledger. The summary entry is to be posted to the General Ledger.

In the following illustrations of the three ledgers used, not only is the posting from the general journal shown, but also all the posting from the different special journals illustrated in this chapter:

GENERAL LEDGER

Cash

19—						19—					
Oct.	1	Balance	J. 1	3,460	00	Oct.	31	Payments	C. 3	2,459	90
	31	Receipts	C. 2	1,297	80						

Notes Receivable

19—						19—					
Oct.	1	Balance	J. 1	800 00		Oct.	3		C. 2	250 00	
	14		J. 1	500 00							

Accounts Receivable

19—						19—					
Oct.	1	Balance	J. 1	915 00		Oct.	31		J. 2	540 00	
	31		S. 1	1,700 00			31		C. 2	1,010 00	

Merchandise Inventory

19—											
Oct.	1	Inventory	J. 1	3,000 00							

Office Equipment

19—											
Oct.	1	Inventory	J. 1	300 00							

Notes Payable

19—						19—					
Oct.	7		C. 3	1,000 00		Oct.	1	Balance	J. 1	1,200 00	
							12		J. 1	350 00	

Accounts Payable

19—						19—					
Oct.	31		J. 2	377 50		Oct.	1	Balance	J. 1	830 00	
	31		C. 3	1,080 00			31		P. 1	1,830 00	

P. J. Duff. Capital

						19—					
						Oct.	1	Net Worth	J. 1	6,445 00	

P. J. Duff, Personal

19—											
Oct.	21		C. 3	50 00							

Purchases

19—											
Oct.	31		P. 1	1,830 00							

Freight-In

19—																	
Oct.	15			C. 3	47	50											

Purchase Returns

							19—										
							Oct.	31				J. 2		27	50		

Rent

19—																	
Oct.	1			C. 3	200	00											

Salaries

19—																	
Oct.	15			C. 3	110	00											

Sales

							19—										
							Oct.	19				C. 2		60	00		
								31				S. 1	1,700	00			

Sales Returns

19—																	
Oct.	30			J. 1	40	00											

Purchase Discount

							19—										
							Oct.	31				C. 3		27	60		

Sales Discount

19—																	
Oct.	31			C. 2	22	20											

ACCOUNTS RECEIVABLE LEDGER

Lancaster **S. T. Ferris** **Pa.**

19—																	
Oct.	1	Balance		J. 1	375	00											

Dover — **H. E. Banks** — **N. J.**

19— Oct.	1	Balance	J. 1	540	00								

Brewster — **J. A. Dolan** — **N. Y.**

19— Oct.	1	2/10, n/30	S. 1	360	00	19— Oct.	11	(Dis. $7.20)	C. 2	360	00

Rye — **R. W. Hoyt** — **N. Y.**

19— Oct.	5	3/10, n/60	S. 1	200	00	19— Oct.	15	(Dis. $6.00)	C. 2	200	00

Derby — **F. R. Ward** — **Conn.**

19— Oct.	12	30-day note	S. 1	500	00	19— Oct.	14	Note	J. 2	500	00

Easton — **L. C. Smith** — **Pa.**

19— Oct.	20	2/10, n/30	S. 1	450	00	19— Oct.	30	(Dis. $9.00)	C. 2	450	00

Bayonne — **K. C. Sams** — **N. J.**

19— Oct.	28	2/10, n/30	S. 1	190	00	19— Oct.	30	Returns	J. 2	40	00

ACCOUNTS PAYABLE LEDGER

Bridgeport — **J. L. Barnes** — **Conn.**

						19— Oct.	1	Balance	J. 1	560	00

Philadelphia — **F. J. Caley** — **Pa.**

						19— Oct.	1	Balance	J. 1	270	00

Buffalo — **M. W. Bruce** — **N. Y.**

19— Oct.	12	(Dis. $9.60)	C. 3	480	00	19— Oct.	3	2/10, n/30	P. 1	480	00

Waterbury — **J. W. Carr & Co.** — **Conn.**

19—						19—					
Oct.	12	Note	J. 1	350	00	Oct.	10	30-day note	P. 1	350	00

Pittsburgh — **R. C. Wanless** — **Pa.**

19—						19—					
Oct.	27	(Dis. $18)	C. 3	600	00	Oct.	19	3/10, n/60	P. 1	600	00

Trenton — **W. D. Ong & Co.** — **N. J.**

19—						19—					
Oct.	31	Returns	J. 2	27	50	Oct.	27	2/10, n/30	P. 1	400	00

The Trial Balance of the General Ledger.—The Trial Balance of the General Ledger of P. J. Duff, at October 31, to test the accuracy of posting to that ledger, follows:

P. J. DUFF

Trial Balance, October 31, 19—

Cash	2,297 90		
Notes Receivable	1,050 00		
Accounts Receivable	1,065 00		
Merchandise Inventory	3,000 00		
Office Equipment	300 00		
Notes Payable		550	00
Accounts Payable		1,202	50
P. J. Duff, Capital		6,445	00
P. J. Duff, Personal	50 00		
Purchases	1,830 00		
Freight In	47 50		
Purchase Returns		27	50
Rent	200 00		
Salaries	110 00		
Sales		1,760	00
Sales Returns	40 00		
Purchase Discount		27	60
Sales Discount	22 20		
	10,012 60	10,012	60

Abstracts of the subsidiary ledgers.—The abstracts of the two subsidiary ledgers of P. J. Duff at October 31, to test their agreement with the controlling account in each case, follow:

P. J. DUFF

Abstract of Accounts Receivable Ledger, October 31, 19—

S. T. Ferris	375 00		
H. E. Banks	540 00		
K. C. Sams	150 00		
Accounts Receivable Controlling Account			1,065 00

P. J. DUFF

Abstract of Accounts Payable Ledger, October 31, 19—

J. L. Barnes	560 00		
F. J. Caley	270 00		
W. D. Ong & Co.	372 50		
Accounts Payable Controlling Account			1,202 50

Summary of posting procedure.—The necessary procedure in posting, from the different journals used, to the General Ledger and to the subsidiary ledgers, has been explained and illustrated in this chapter. This procedure may be summarized as follows:

Posting to the General Ledger:

1. Post the summaries of all journals.
2. Post the General Ledger columns wherever used.

Posting to the Accounts Receivable Ledger:

1. Post the debits from the sales journal to the customers' accounts.
2. Post the credits from the Accounts Receivable column of the cash journal.
3. Post the credits from the Accounts Receivable column of the general journal.

Posting of the Accounts Payable Ledger:

1. Post the credits from the purchase journal to the creditors' accounts.
2. Post the debits from the Accounts Payable column of the cash journal.
3. Post the debits from the Accounts Payable column of the general journal.

Review Questions

1. Define "controlling account."

2. Explain the difference between the controlling account, "Accounts Receivable," in the general ledger, and the individual account of a customer in the subsidiary ledger.

3. How are amounts obtained for posting to the controlling accounts in the general ledger?

4. Explain a good way of indicating how the totals of columns in the various journals should be posted.

5. When summary entries are made for the footings of each journal at the end of each month, to which ledger are the summaries posted?

6. What is the object of adding the summaries which are made to show the posting of totals of columns?

7. Why are entries to the debit or credit of "General Ledger" checked in the summaries?

8. Explain what *two* steps are necessary to post from the various journals to the general ledger.

9. Explain what *three* steps are necessary to post from the various journals to the customers' ledger.

10. Explain what *three* steps are necessary to post from the various journals to the creditors' ledger.

11. How is the accuracy of posting to the general ledger tested?

12. How is the accuracy of posting to the customers' ledger tested? To the creditors' ledger?

Exercises

1. J. W. Adams has been in business for a number of years and has had all needed ledger accounts kept in one ledger. He instructs his bookkeeper, on July 1, 19—, to change to a system of subsidiary ledgers for customers and creditors, controlled through the General Ledger.

The customers' and creditors' accounts on the ledger were:

Customers—F. E. Crane, $288.70; D. W. Nelles, $463.85; L. R. Ransom, $349.25; *Creditors*—Ames & Winslow, $592.70; R. W. Stone & Co., $464.10; H. S. Falls, $600.

Make, with full explanations, the entries in the general journal to transfer the above accounts to separate ledgers and to establish the proper controlling accounts in the General Ledger. Use a four-column divided journal with columns arranged as follows: Accounts Payable Dr., General Ledger Dr., General Ledger Cr. and Accounts Receivable Cr.

2. On December 31, 19—, the journals of the J. N. Forbes Company showed the following footings: *Sales Journal*—$5,976.50; *Purchase Journal*—$4,573.20; *Cash Receipts Journal*—Net Cash, $2,761.40; Accounts Receivable, $1,882.50; Sales Discounts, $53.10; General Ledger, $932.00; *Cash Payments Journal*—General Ledger, $823.60; Accounts Payable, $2,090.50; Purchase Discounts, $66.75; Net Cash, $2,847.35; *General Journal*—Accounts Payable, $1,239.70; General Ledger (Dr.), $2,533.25; General Ledger (Cr.), $2,360.80; Accounts Receivable, $1,412.15.

On a sheet of journal paper, prepare five summary entries, each under date of December 31, to show the required posting of the totals.

3. The following Trial Balance was taken from the ledger of R. E. Doyle, after closing at September 30, 19—:

R. E. DOYLE

Post-closing Trial Balance, September 30, 19—

Cash	3,127 50	
Notes Receivable	600 00	
C. W. Purcell	276 50	
B. A. Palmer	300 00	
Merchandise Inventory	2,000 00	
Office Fixtures	250 00	
R. E. Doyle, Capital		4,934 00
Notes Payable		850 00
M. E. Conlon		410 00
E. P. Hess		360 00
	6,554 00	6,554 00

It is decided to transfer the accounts of customers and creditors to two subsidiary ledgers, controlled through the general ledger. The books of original entry have money columns arranged as follows: *General Journal*—Accounts Payable Dr., General Ledger Dr., General Ledger Cr., Accounts Receivable Cr. *Cash Receipts*—Net Cash, Accounts Receivable, Sales Discounts, General Ledger. *Cash Payments*—Net Cash, Accounts Payable, Purchase Discounts, General Ledger. The Sales Journal and the Purchase Journal are kept in register form, as illustrated in this chapter.

Open ledger accounts, allowing 7 lines for each, and enter the balances from the Trial Balance, dating each ledger entry October 1, 19—.

Make the entries in the general journal to transfer the customers' and creditors' accounts to separate ledgers and to set up the controlling accounts in the general ledger.

Post the journal entries to the three ledgers affected. Enter the cash balance in the cash journal; after which make the required entries for the following selected transactions for the month of October, using the books of original entry already described:

Oct. 1. Paid the James Realty Co., October rent, $140.

3. Sold merchandise to John Richards, City, terms 2/10, n/30, $175.

4. Received cash from C. W. Purcell in settlement of his account, $276.50, less 2%.

6. Bought merchandise from E. O. Ferris, Chicago, terms 2/10, n/30, $460.

9. Paid M. E. Conlon for invoice of September 29, $410, less 2%.

12. Sold merchandise to C. W. Purcell, City, terms 2/10, n/30, $388.50.

13. Received a check from John Richards in payment for our invoice of October 3, $175, less 2%.

14. Received a 30-day note from B. A. Palmer in settlement of his September account, $300.

Oct. 14. Sent a check to E. O. Ferris in payment for his invoice of October 6, $460, less 2%.

15. Paid office salaries in cash, $60. Bought office supplies for cash, $9.50.

17. Bought merchandise from H. Hudson & Co., Detroit, Mich., terms 2/10, n/30, $750.

19. C. W. Purcell returned part of goods sold to him on October 12 and received credit for $20.

20. H. R. Sands paid his note in our favor, due to-day, $450.

22. Received a check from C. W. Purcell in payment for our invoice of October 12, less goods returned by him on October 19 and less 2%.

24. Sold merchandise to B. A. Palmer, City, terms 2/10, n/30, $690.

25. Paid our note in favor of Brown & Fink, due to-day, $850.

26. Sent a check to H. Hudson & Co. in payment of their invoice of October 17, $750, less 2%.

27. Bought merchandise from M. E. Conlon, Trenton, N. J., terms 3/10, n/30, $800.

28. Gave E. P. Hess a 20-day note for $360 in settlement of his account.

30. Returned to M. E. Conlon a part of goods purchased from him on October 27 and received credit for $50.

31. Paid office salaries to date, $60. Paid freight on merchandise purchased, $43.70.

Foot and rule all the journals. Prepare summaries to show the posting of totals. Bring down the cash balance.

Post all entries to the ledgers.

Prepare:

(a) A Trial Balance of the general ledger.

(b) Abstracts of the customers' and creditors' ledgers showing agreement with the controlling accounts.

4. The following Balance Sheet shows the condition of the business of H. F. Halstead on July 1, 19—:

H. F. HALSTEAD

Balance Sheet, July 1, 19—

Assets		
Cash	4,470 00	
Notes Receivable	875 00	
Accounts Receivable	1,267 50	
Merchandise Inventory	2,360 00	
Office Fixtures	410 00	
Total Assets		9,382 50
Liabilities		
Notes Payable	1,000 00	
Accounts Payable	1,190 00	
Total Liabilities		2,190 00
Capital		
H. F. Halstead, Net Worth		7,192 50
		9,382 50

Schedules which support the Balance Sheet give the following additional information:

Notes Receivable.—Note of E. W. Smith for $475, dated June 5 at one month, without interest; note of L. R. Simpson for $400, dated May 27 at 60 days, with interest at 6%.

Accounts Receivable.—J. C. Wardell, 510 Elm St., City, June 25, terms 2/10, n/30, $539.20; M. C. Overbrook, 315 Clove Road, City, June 28, terms 2/10, n/30, $728.30.

Notes Payable.—A note dated May 15 at 60 days, in favor of the Merchants Bank, without interest, $1,000.

Accounts Payable.—Ellis Brothers, Pittsburgh, Pa., June 27, terms 3/10, n/60, $600; Parker & Sons, Cleveland, Ohio, June 30, terms 2/10, n/30, $590.

The books used are as follows: a four-column general journal with special columns for Accounts Payable Dr. and Accounts Receivable Cr.; a cash journal with columns as follows: *receipts side*—Net Cash, Accounts Receivable, Sales Discounts, General Ledger; *payments side*—Net Cash, Accounts Payable, Purchase Discounts, General Ledger; also a sales journal and a purchase journal, each in register form.

Customers' and creditors' accounts are to be kept in separate ledgers, controlled through the general ledger.

Arrange the books of original entry as described above and make an entry in the general journal to open a new set of books. Enter the cash balance in the cashbook.

Make, with full explanations, the necessary entries for the following transactions during the month of July:

July 1. Paid H. Anson, landlord, for July rent, $200.
Bought merchandise of Kramer & Co., Trenton, N. J., terms 2/10, n/30, $537.50.

2. Sold merchandise to L. R. Brant, 270 Main St., City, terms 2/10, n/30, $371.50.

3. Purchased office supplies for cash, $11.50.
Took out a policy of insurance on the stock of merchandise and paid the first year's premium in cash, $88.

5. Received a check from J. C. Wardell for our invoice of June 25, $539.20 less 2%.
E. W. Smith paid his note due to-day, $475.

6. Sold merchandise to M. C. Overbrook, City, $440, terms half cash and balance a 30-day note. (See July 10.)
Paid Ellis Brothers for their invoice of June 27, $600, less 3%.

8. Bought merchandise from Ellis Brothers, terms 3/10, n/60, $710.
Received cash from M. C. Overbrook for our invoice of June 28, $728.30, less 2%.

9. Sold merchandise to J. D. Francis, 511 West St., City, $521.90, terms 2/10, n/30.
Paid Parker & Sons for their invoice of June 30, $590, less 2%.

10. Received a check for $220 and a 30-day note for $220 from M. C. Overbrook in settlement of our invoice of July 6. The note was dated July 6.
Paid Kramer & Co. for their invoice of July 1, $537.50, less 2%.

July 12. J. D. Francis returned a part of the goods sold to him on July 9 and received credit for $30.

Paid cash for repairs to store shelves, $4.75.

L. R. Brant paid for our invoice of July 2, $371.50, less 2%.

14. Paid our note due to-day, in favor of the Merchants Bank, $1,000.

Purchased a delivery truck for cash, $500.

15. Paid office salaries to date, $85.

Mr. Halstead withdrew cash for personal use, $50.

17. Paid cash for supplies for the delivery truck, $7.50. (Charge to Delivery Expense.)

Bought merchandise from P. W. Emmons, New Haven, Conn., $675, terms 30-day sight draft. (See July 18.)

18. Paid Ellis Brothers for invoice of July 8, $710, less 3%.

Accepted and returned to P. W. Emmons his 30-day sight draft for invoice of July 17.

19. Received check from J. D. Francis for our invoice of July 9, less goods returned on July 12 and less 2%.

21. Sold merchandise to J. C. Wardell, terms 2/10, n/60, $543.60.

Bought merchandise from Parker & Sons, terms 2/10, n/30, $399.75.

24. Sold a small lot of merchandise for cash, $14.90.

Paid cash for office supplies, $9.45.

26. Bought merchandise from Ellis Brothers, terms 3/10, n/60, $240.

Paid freight on incoming merchandise, $48.50.

L. R. Simpson paid his note of $400, due to-day, with interest for 60 days at 6%.

29. Paid sundry personal bills for Mr. Halstead out of the business cash, $23.40.

Sold merchandise to L. R. Brant, terms 2/10, n/30, $800.

July 31. Paid office salaries to date, $85.

Mr. Halstead withdrew $25 for personal use.

Paid wages of truck driver to date, $87.50. (Delivery Expense.)

Close all the journals and prepare the summaries to provide for the posting of totals. Bring down the cash balance.

Post all entries. In arranging the ledger accounts, put four on each page. The General Ledger accounts should be arranged in the following order: Cash, Notes Receivable, Accounts Receivable, Merchandise Inventory, Office Fixtures, Delivery Truck, Notes Payable, Accounts Payable, H. F. Halstead—Capital, H. F. Halstead—Personal, Purchases, Freight-In, Purchase Returns, Purchase Discounts, Sales, Sales Returns, Sales Discounts, Rent, Office Supplies, Insurance, General Expense, Office Salaries, Delivery Expense, Interest Earned.

Prepare:

(a) A Trial Balance at July 31.

(b) Abstracts of the Customers' and Creditors' Ledgers.

(c) A Statement of Profit and Loss, taking into account the following inventories:

Merchandise	$3,325.00
Office Fixtures, book value less 3%	
Delivery Truck, cost less 10%	
Office Supplies	8.50

(d) A Balance Sheet at July 31.

(e) Adjusting and closing entries to complete the books.

Post the adjusting and closing entries; rule off all accounts that are in balance, and balance all other accounts. Check the balances of the ledger accounts with the Balance Sheet.

Chapter IV

SPECIAL PROBLEMS IN THE JOURNALS

Additional columns in the journals.—In the two preceding chapters, the general arrangement of the different books of original entry, so as to provide for the handling of subsidiary ledgers and controlling accounts, was explained and illustrated. The totals necessary for the proper entries in the controlling accounts, at the end of each month, were provided by segregating in special columns those amounts to be posted to the subsidiary ledger accounts.

Not all special columns, however, are kept for the purpose of making it easy to operate the controlling accounts. In the cash journals, for instance, the columns for sales and purchase discounts are kept for the purpose of summarizing the postings to the Sales Discount and Purchase Discount accounts. The object sought there is economy. In a like manner, other special columns may be carried in the journals. It should be observed, however, that special columns are justified only when entries of the same kind occur frequently enough to make a special column a labor-saving device.

Thus, cash sales may be numerous enough to call for a Cash Sales column on the receipts side of the cash journal. If many notes are discounted each month, it may be advisable to have a special column on the receipts side of the cash journal for Notes Receivable Cr.; and it would appear, also, that a column for Interest Cost Dr. would be advisable. On the payments side of the cash journal may be found a special column for General Expenses; or any special column may be kept if entries of a particular kind are numerous enough to justify it.

In the general journal, special columns are frequently kept for Notes Receivable and Notes Payable when entries to these two accounts are numerous. In the following illustration, we

have a six-column general journal with special columns to handle entries for notes received from customers and entries for notes issued to creditors:

General Journal

Notes Receivable	*Accounts Payable*	*General Ledger*	*F.*	March 1, 19—	*General Ledger*	*Accounts Receivable*	*Notes Payable*
450 00			✓	Notes Receivable			
			3	A. R. Smale.....		450 00	
				Received his 60-day note for invoice of 2/26.			
				—5—			
		50 00	8	Sales Returns			
			2	J. C. Way.....		50 00	
				Credit for goods returned by him.			
				—12—			
	820 00		4	King & Taylor			
			✓	Notes Payable....			820 00
				Gave our 30-day note for invoice of March 9.			
				—24—			
	90 00		3	Brown Brothers			
			6	Returned Purchases.....	90 00		
				Credit for goods returned by us.			
450 00	910 00	50 00			90 00	500 00	820 00
				Summary, March 31.			
		450 00	1	Notes Receivable			
		910 00	7	Accounts Payable			
		50 00	✓	General Ledger			
			✓	General Ledger.....	90 00		
			1	Accounts Receivable	500 00		
			6	Notes Payable.....	820 00		
		1,410 00			1,410 00		

Handling cash sales.—It has already been suggested in this chapter that it may be advisable to have a special column in the cash receipts journal for cash sales, if they are at all numerous. Such entries are checked when made, and posting to the Sales account is provided for by including the total of the cash sales column in the summary entry made when closing the cash journal.

This is illustrated as follows:

	Cash.....	$3,782.50	
	Sales Discount.....	134.10	
	Accounts Receivable.....		$1,964.15
	Sales.....		529.60
✓	General Ledger.....		1,422.85
		$3,916.60	$3,916.60

Under another plan, cash sales are entered in both the sales journal and the cash journal. A column headed Cash Sales is kept in each of these two journals; but posting of cash sales is provided for in the summary entry at the close of the sales journal only. This plan permits the Sales account to be credited for all sales for each month in one amount. The cash journal entry must, of course, be made; and the keeping of a Cash Sales column in that journal provides for a check on the entries for cash sales in the sales journal.

The following is a form of the sales journal with a Cash Sales column:

Sales Journal

Date		*F.*	*Customers*	*Total*	*Accounts Receivable*	*Cash Sales*
19—						
July	1	1	James Anderson	560 00	560 00	
	5	✓	Cash Sale	20 00		20 00
	14	3	L. C. Smith	388 40	388 40	
	19	✓	Cash Sale	47 50		47 50
	25	4	E. W. Adams	465 00	465 00	
	30	✓	Cash Sale	52 75		52 75
				1,533 65	1,413 40	120 25
			Summary, July 31, 19—			
		1	Accounts Receivable	1,413 40		
		✓	Cash	120 25		
		5	Sales		1,533 65	
				1,533 65	1,533 65	

In the summary of the cash receipts journal, kept in conjunction with the foregoing sales journal, the credit to the Sales account would equal the amount of the cash sales column in the sales journal. In order to prevent duplication of posting, the entry would be checked as illustrated below:

	Cash	$1,950.00	
	Sales Discount	116.00	
	Accounts Receivable		$1,263.80
✓	Sales		120.25
✓	General Ledger		681.95
		$2,066.00	$2,066.00

Withdrawals of merchandise by the proprietor.—At times the proprietor of a business may take goods from stock for his personal use. Such merchandise would be charged to the proprietor at cost, and, in effect, would constitute a withdrawal of goods from sale to the public. Since the purchase of such merchandise by the business had been charged to the Purchases account, it would appear that the proper entry for the withdrawal, in the general journal, would be as follows:

John Wilson, Personal	$30	
Purchases		$30

It is common practice, however, to enter withdrawals of merchandise by the proprietor directly in the sales journal. The transaction is thus treated as a sale, although no element of profit is involved. Under this plan, a complication arises in connection with the posting of the sales journal. The Personal account of the proprietor is in the general ledger. Yet the amount to be charged to this general ledger account will be included in the addition of the sales journal. Hence, it appears in the summary entry which will debit the Accounts Receivable controlling account and credit the Sales account. Clearly, the debit to the controlling account is too large in amount.

A similar situation arises if merchandise is sold to an employee at cost, or at regular sales prices, and if the amount is charged against the current salary of the employee. If entered in the sales journal, a difficulty again appears, since the account to be debited, Salaries, is in the general ledger. Under the circumstances, a debit to the controlling account, Accounts Receivable, for the total of the sales journal, will be too large.

In cases like those described above, the general ledger debits should be checked in the sales journal and entry should be made in the general journal to debit the proper general ledger account, or accounts, and to credit the controlling account. This credit will serve to correct the latter account.

The following is an illustration of the procedure outlined above:

Sales Journal

Date	F.	Accounts Receivable	Addresses	Terms	Discount Date	Amount
19—					19—	
May 1		E. J. Edwards	144 Elm St.	2/10, n/30	May 11	375 00
5	✓	John Wilson, Personal				30 00
12		R. J. Ellison	94 North Ave.	2/10, n/30	22	400 00
20		F. C. Lampton	176 Main St.	2/10, n/30	30	290 00
25	✓	Salaries	(Bookkeeper)			15 00
						1,110 00
		Summary, May 31, 19—				
		Accounts Receivable			1,110 00	
		Sales				1,110 00

General Journal

Accounts Payable	General Ledger	F.	May 31—	General Ledger	Accounts Receivable
	30 00		John Wilson, Personal		
	15 00		Salaries		
			Accounts Receivable.....		45 00
			To charge the proper general ledger accounts and to correct the controlling account for sales made to others than trade customers and included in total of the Sales Journal. (See Sales Journal 5.)		

Sales of merchandise to creditors.—A sale of goods may be made to one who is a creditor of the business and whose account already appears in the Accounts Payable ledger. Unless it seems advisable to carry an account with him in the Accounts Receivable ledger as well (and this might be done), the amount of the sale to the creditor-customer will be posted to the debit side of the creditor's account in the Accounts Payable ledger. When the sales and purchase journals have been summarized and posted at the end of the month, it will be necessary to make an entry in the general journal to correct the balances of the two controlling accounts.

The required entry in the general journal is illustrated on the following page:

General Journal

Accounts Payable	General Ledger	F.	May 31, 19—	General Ledger	Accounts Receivable
60 00			Accounts Payable		
			Accounts Receivable.....		60 00
			To adjust the above controlling accounts following posting of entry for a sale of goods to a creditor, King & Co. (See Sales Journal 6.)		

Purchase of merchandise from a customer.—When goods are purchased from one who is ordinarily a customer, a situation arises which should be compared with a sale to a creditor. Unless two accounts are kept with the customer-creditor, one in the Accounts Receivable ledger and the other in the Accounts Payable ledger, the two controlling accounts will not be in harmony with their respective subsidiary ledgers.

Here again, a correcting entry must be made in the general journal, as follows:

General Journal

Accounts Payable	General Ledger	F.	May 31, 19—	General Ledger	Accounts Receivable
50 00			Accounts Payable		
			Accounts Receivable.....		50 00
			To adjust the above controlling accounts following posting of entry for purchase of goods from a customer, H. P. Wells. (See Purchase Journal 4.)		

Entries requiring "double posting."—The study of controlling accounts has brought out the need for special columns in the general journal and in the cash journals to provide a means of arriving at totals of debits and credits that have been posted to the subsidiary ledgers. These totals are posted to the controlling accounts. This procedure eliminates the necessity for the posting of a great many individual amounts.

It will happen, from time to time, that entries affecting the customers' or creditors' accounts must be made in the journals, and yet the columnar arrangement may not provide a special column for these subsidiary ledger debits or credits. Thus, there may be times when it would be convenient to have an Accounts Payable column in the cash receipts journal and an Accounts Receivable column in the cash payments journal. Likewise, the arrangement of the divided general journal might be more convenient, at times, if columns for both Accounts Receivable and Accounts Payable were provided on each side of the journal page. The cash journals and the general journal are frequently seen with the columnar arrangement indicated above, when entries calling for the use of such columns occur frequently enough to justify them.

Whenever a debit or a credit affecting an account of a customer or creditor is entered in a general journal or a cash journal lacking the desired Accounts Receivable or Accounts Payable column, the amount of such debit or credit must be entered in the General Ledger column. In posting, care must be taken to post such an amount twice: first, to the particular account affected in the subsidiary ledger, and then to the controlling account for that ledger. Such a procedure is commonly called " double posting; " and, since an amount entered as a debit or a credit in a journal is to be posted to two accounts, it is evident that both accounts should be named in making the original entry.

To illustrate this procedure in the case of the general journal, the following selected transactions will be considered:

June 6, 19—. A promissory note of a customer, J. C. Ray, which had been left at the bank for collection, is returned by the bank with the statement that payment had been refused. Face of note, $400.

17. A promissory note of L. J. Caley, a customer, which had been transferred by endorsement to F. R. King, a creditor, is returned by Mr. King with the statement that he had been unable to collect. Face of note, $500.

25. Freight charges, $16.90, on a shipment of goods sold

to D. W. Nelles, and prepaid for the convenience of Mr. Nelles, were incorrectly charged to Freight-In, instead of to the customer.

The required entries in the general journal follow:

General Journal

Accounts Payable	*General Ledger*	*F.*	June 6, 19—	*General Ledger*	*Accounts Receivable*
	400 00	1/6	Accounts Receivable (J. C. Ray)		
		1	Notes Receivable.....	400 00	
			To charge back to J. C. Ray his note, dated May 5, dishonored.		
			—17—		
	500 00	1/4	Accounts Receivable (L. J. Caley)		
		6/3	Accounts Payable (F. R. King).....	500 00	
			To debit L. J. Caley, customer, and credit F. R. King, creditor, for the former's note dated May 15, endorsed to the latter and dishonored.		
			—24—		
	16 90	1/5	Accounts Receivable (D. W. Nelles)		
		9	Freight-In.....	16 90	
			To charge D. W. Nelles for freight on shipment of June 12 incorrectly charged to Freight-In. (See C. B. 9.)		

To illustrate the handling of "double posting" entries in the cash receipts journal, the following selected transactions will be considered:

June 5, 19—. Received a check from J. P. Ash, a creditor, for $10. In settling his account on June 1, he had been overpaid through error.

14. Received a check for $21.50 from A. Ames, a creditor, for merchandise returned to him after his account had been paid in full. The returned goods were charged to the creditor's account.

The entries required in the cash receipts journals are shown below:

Cash Receipts

Date	F.	Accounts Cr.	Explanation	Net Cash	Accounts Receivable	Sales Discount	General Ledger
19—							
June 5	1/4	Accounts Payable (J. P. Ash)	Refund for overpayment.....	10 00			10 00
14	6/3	Accounts Payable (A. Ames)	Refund for goods returned. (See J. 3.)	21 50			21 50

Similar situations are bound to arise in connection with the handling of the cash payments journal. To illustrate, the following transactions will be considered:

June 4, 19—. A check for $850, received on June 1 from G. E. Wood, a customer, and deposited on the same day, was returned protested for non-payment. The protest fees, amounting to $1.50, as well as the check, had been charged to our account.

10. A promissory note for $500, made by H. P. Sims, a customer, dated May 8 at one month and discounted at our bank on May 12, was returned by the bank, protested for non-payment. Protest fees of $1 had been charged to our account.

18. Freight, amounting to $11.50, was prepaid on a shipment of goods sold to L. C. Dale, with the understanding that the freight was to be charged to the customer.

28. Sent a check for $18 to R. P. Estey, a customer, as a refund for overpayment of his account.

These transactions will require the following entries in the cash payments journal. Note that, in posting such entries as these, both the general ledger and the subsidiary ledger pages should be indicated in the folio column.

Cash Payments

Date	*F.*	*Accounts Dr.*	*Explanation*	*Net Cash*	*Accounts Payable*	*Purchase Discount*	*General Ledger*
19—							
June 4	1/3	Accts. Receivable (G. E. Wood)	Protested check and fees. (See C. B. 6.)	851 30			851 50
10	1/4	Accts. Receivable (H. P. Sims)	Protested note and fees. (See C. B. 4)	501 00			501 00
18	1/3	Accts. Receivable (L. C. Dale)	Freight on sale No. 119	11 50			11 50
28	1/4	Accts. Receivable (R. P. Estey)	Refund for overpayment	18 00			18 00

Interest cost in the cash receipts journal.—The discounting of notes at the bank calls for an entry, or entries, to record the facts. Up to this time, both the general journal and the cash receipts journal have been employed to make the original record. The entire entry was first placed in the general journal; then the debit to cash was checked and the cash part of the transaction, as a cash receipt, was put into the cash receipts journal.

The addition of a special column for Interest Cost would make it very easy to put the entire entry into the cash receipts journal. The general journal entry would then be unnecessary. If entries for Interest Cost are numerous, in connection with the discounting of notes, such a special column should be arranged in the cash receipts journal.

By making use of the Sales Discount column, however, the general journal entry in the discounting of notes may be done away with. Thus, the Sales Discount column will be used for both debits to Sales Discount and debits to Interest Cost. By encircling or starring the amounts of Interest Cost entered in this column, an analysis is provided, and the items of Sales Discount and Interest Cost are separated when adding the column and making the summary entry for the posting of totals.

The following is an illustration of the cash receipts journal, with entries for the discounting of notes, involving Interest

Cost. In this connection, it should be noted that not all cases of discounted notes will require a debit to Interest Cost. In the case of interest-bearing notes, the Interest Earned will probably be greater than the Interest Cost; hence, the Interest Earned account will be credited for the net increase in capital —the excess of Interest Earned over Interest Cost.

Cash Receipts

Date	*F.*	*Accounts Cr.*	*Explanation*	*Net Cash*	*Accounts Receivable*	*Sales Discount*	*General Ledger*
19—							
June 1	✓	Balance		1,400 00			
4		B. W. Waters	Inv. 5/22, less 2%	539 00	550 00	11 00	
9		Notes Receivable	#6 discounted	597 00		* 3 00	600 00
14		F. C. Elliott	Inv. 6/4, less 2%	735 00	750 00	15 00	
17		Notes Payable	Our note, 60 days, favor Wall St. Trust Company	1,980 00		*20 00	2,000 00
21		Notes Receivable	#9, due to-day	402 00			400 00
21		Interest Earned	30 days on above, 6%				2 00
26		R. W. Lason	Inv. 6/16, less 2%	245 00	250 00	5 00	
29		Notes Receivable	#11 discounted	900 82			900 00
29		Interest Earned	Net, on above ($9.00 − 8.18)				82
30	✓	Totals		5,398 82	1,550 00	*23 00	3,902 82
30	✓	Balance, June 1		1,400 00		31 00	
				6,798 82			
		Summary,	June 30, 19—				
		Cash		5,398 82			
		Sales Discount		31 00			
		Interest Cost		23 00			
		Accts. Receivable			1,550 00		
	✓	General Ledger			3,902 82		
				5,452 82	5,452 82		

The departmental purchase journal.—When it is desired to keep separate the purchases for different departments of a business, the purchase journal already illustrated will not be satisfactory. Provision should be made to segregate the purchases of more than one class of merchandise, so as to allow for posting to more than one Purchases account. This is easily accomplished by the addition of special columns, as illustrated in the purchase journal on the following page:

Purchase Journal

Date	F.	Accounts Payable	Terms	Amount	Purchases—Coats	Purchases—Dresses
19—						
May 1		J. W. Cameron	2/10, n/30	800 00	500 00	300 00
10		Hogan & Hoyt	3/10, n/60	1,200 00	400 00	800 00
18		R. A. Burnside	10-day note	950 00	950 00	
25		H. F. Landon	2/10, n/60	1,100 00	750 00	350 00
				4,050 00	2,600 00	1,450 00
		Summary, May 31, 19—				
		Purchases—Coats		2,600 00		
		Purchases—Dresses		1,450 00		
		Accounts Payable			4,050 00	
				4,050 00	4,050 00	

The departmental sales journal.—The addition of special columns in the sales journal provides for a separate record of sales by departments. This is illustrated in the following form of the sales journal:

Sales Journal

Date	F.	Accounts Receivable	Terms	Amount	Sales—Coats	Sales—Dresses
19—						
May 1		J. R. Manning	2/10, n/30	260 00	100 00	160 00
5		W. E. Sinclair	net cash	345 00	120 00	225 00
12		K. C. Ames	2/10, n/30	400 00	250 00	150 00
15		E. P. Meadows	20-day note	500 00	500 00	
20		J. R. Ward	3/10, n/60	50 00		50 00
30		P. C. Cline	2/10, n/30	200 00	160 00	40 00
				1,755 00	1,130 00	625 00
		Summary, May 31, 19—				
		Accounts Receivable		1,755 00		
		Sales—Coats			1,130 00	
		Sales—Dresses			625 00	
				1,755 00	1,755 00	

744146
4297.52
3143 94

Registers for notes receivable and notes payable.—When many promissory notes and time drafts are received from customers or issued to creditors, it is well to supplement the general journal and ledger records by using special registers for notes receivable and for notes payable. In these books,

NOTES

When Received	No.	From Whom Received	Maker or Drawee	Indorser	Where Payable
19—					
May 3	1	T. W. Mackay	T. W. Mackay	None	Union Trust Co.
14	2	H. P. Wells...	O. W. Crane	H. P. Wells	Chase National
25	3	E. P. Ames....	E. P. Ames	None	His office
		Summary, May 31, 19—			
		Notes Receivable.....	1,350.00		
		Accts. Receivable.....		1,350.00	

NOTES

When Given	No.	To Whom Given	Maker or Drawee	Indorser	Where Payable
19—					
May 5	1	Brown Bros...	Ourselves	None	Our office
15	2	King & Co....	Ourselves	None	First National
27	3	R. O. Forbes..	Ourselves	None	First National
		Summary, May 31, 19—			
		Accounts Payable.....	2,400.00		
		Notes Payable.....		2,400.00	

the particular details as to date of paper, time to run, due date, interest rate, and so forth, may be very conveniently recorded for reference.

A common form of each book is shown on pages 70 and 71. They may be used merely as auxiliary books, or they may be used as journals. They are auxiliary books if no posting is done from them. In that case, the entries are made, as usual, in the general journal. They are used as

RECEIVABLE

Time	*Date of Paper*	*When Due*	*F.*	*Amount*	*Rate of Int.*	*Interest*	*When and How Disposed of*
30 days	May 1	May 31		600 00	6%		
2 mo.	Apr. 10	June 10		500 00	—		
20 days	May 24	June 13		250 00	5%		
				1,350 00			

PAYABLE

Time	*Date of Paper*	*When Due*	*F.*	*Amount*	*Rate of Int.*	*Interest*	*When and How Paid*
1 mo.	May 4	June 4		800 00	6%		
30 days	May 15	June 14		1,000 00	6%		
20 days	May 26	June 15		600 00	—		
				2,400 00			

journals if customers are credited and creditors debited directly from the note journals, without general journal entries. This procedure is very simple. A summary entry should be made at the end of each month to provide for posting to the general ledger if the Notes Receivable Book and the Notes Payable Book are used as journals.

In the illustrations on these pages, the books are shown used as journals.

Review Questions

1. Upon what general principle are special columns operated in books of original entry?

2. Why would it be difficult to operate the controlling accounts, in connection with subsidiary ledgers, without special columns in the journals?

3. Name special columns often used in the general journal, in addition to the columns needed for the operation of the controlling accounts.

4. Name special columns that are used in the cashbook and that do not affect the handling of the controlling accounts —(a) receipts side; (b) payments side.

5. In a general way, what justifies the addition of a special column to any journal?

6. Explain a convenient way of handling entries for cash sales in the cash receipts journal.

7. Why is it sometimes desirable to enter the cash sales in the sales journal, as well as in the cash receipts journal?

8. When cash sales are entered in both the sales journal and the cash journal, from which journal are they ordinarily posted to the general ledger? To what account in the ledger?

9. Might an account be kept for Cash Sales in the ledger? Is this customary?

10. What account should be credited, theoretically, when merchandise is withdrawn by the proprietor of a business for his personal use? What account is credited, ordinarily? Why?

11. Give the entry to record the sale of goods at cost price to an employee, assuming that the amount was to be charged against his salary for the month. In what journal would you make the entry?

12. Why does the controlling account, Accounts Receivable, not agree with the customers' ledger when entries for withdrawals of merchandise by the proprietor have been posted from the sales journal and the summary entry made and posted in the usual way?

13. What entry in the general journal will be necessary in the situation described in question 12, above?

14. In what journal would you record a sale of merchandise to a creditor?

15. In what journal would you record a purchase of merchandise from a customer?

16. Assume that an entry for a sale of merchandise to a creditor has been posted from the sales journal to the creditor's account in the Accounts Payable ledger. What entry is necessary in the general journal after the sales journal has been summarized and the summary entry posted in the usual way?

17. Assume that an entry for a purchase of goods from a customer has been posted from the purchase journal to the customer's account in the Accounts Receivable ledger. Give the general journal entry needed, after summarizing and posting the purchase journal in the usual way.

18. What is meant by " double posting " ?

19. When is " double posting " necessary?

20. Explain a convenient way of handling Interest Cost entries in the cash receipts journal when notes are discounted.

Exercises

1. For this question, use a six-column journal with columns arranged as follows: *Debit side*—Notes Receivable, Accounts Payable, General Ledger; *Credit side*—General Ledger, Accounts Receivable, Notes Payable. Record the following, with full explanations:

May 1, 19—. James C. Adams began business with the following assets and liabilities: Cash, $3,750; Notes Receivable, $900; Accounts Receivable (H. F. Warner, $370, and R. W. Fenton, $500); Merchandise Inventory, $2,500; Store Equipment, $400; Notes Payable, $1,000; Accounts Payable (Lane & King, $550, and D. C. Gaines, $460).

5. Received a 20-day note for $370 from H. F. Warner, bearing interest at 6%.

12. Gave Lane and King a 10-day note for $550, with interest at 6%, in settlement of account.

May 15. Issued a credit memorandum to E. J. Lansing, a customer, for merchandise returned by him, $26.75.
19. Accepted a 30-day draft drawn on us by L. C. Smith & Co., $672.50.
22. Received a 30-day note from H. W. Bellows to apply on his account, $350.
25. Received a credit memorandum from B. D. Downs for unsatisfactory merchandise returned to him, $43.60.
29. P. C. Barry accepted our 10-day sight draft for balance due us on his account, $135.

Rule up the journal at May 31, and show the summary entry.

2. Arrange a six-column journal, with columns as called for in question 1, and record the following transactions with full explanations:

June 1, 19—. Issued a credit memorandum to F. R. Grant for merchandise returned by him, $62.10.
4. A. R. Somers accepted our 20-day draft in settlement of his account, $237.50.
7. Gave a 30-day note to C. R. Holmes for $440, with interest at 6%, to balance his account to date.
10. Received a 15-day note from Wade & Butcher, for $523.50.
14. R. A. Ellis, the proprietor, takes a typewriter valued at $70 for use in his home.
18. C. E. Canning renews his 60-day note due to-day, in amount $560, with interest due, $5.60, by giving a new note for $565.60 to run for 10 days.
22. Transferred by indorsement to King Brothers, the promissory note of J. C. Burns, $375.
25. R. W. Walters accepted our 30-day sight draft in settlement for our invoice of June 22, $420, less 2%.
27. Received a credit memorandum from T. W. Raines for merchandise returned to him, $16.50.
30. Drew a 10-day draft on J. P. Kelly, $300, and remitted it to G. E. Barber to apply on account.

Close the journal and prepare the summary entry.

3. On February 10, 19—, a general journal had the following totals brought forward to the top of page 8: *debit side*—Notes Receivable, $600; Accounts Payable, $1,066.50; General Ledger, $1,125; *credit side*—General Ledger, $650; Accounts Receivable, $744.50; Notes Payable, $1,397.

Arrange a journal page with the columns indicated above. Show the amounts brought forward, after which record the following selected transactions, with explanations:

Feb. 11. Purchased a new typewriter from the Remington Typewriter Co., $110, terms 30 days. They allow us $40 on an old typewriter, taken in exchange.

13. Accepted the 30-day draft of N. E. Eppes in settlement for his invoice of Feb. 10, $425 less 2%.

18. A check for $450.80, received from F. W. Allison on February 15, in payment of our invoice of February 5, $460, less 2%, was returned by our bank marked "Insufficient Funds." In our cashbook entry on February 15, we had allowed Mr. Allison the cash discount of 2%. We now charge this amount back to him through the journal.

21. Received the 30-day note of S. E. Walker, with interest at 6%, for our invoice of February 12, $600, less 2%.

23. F. N. Woods gives us his 60-day note for $545.40, to settle his account of $540. Interest, amounting to $5.40 for 60 days, has been added to the face of the note.

25. Drew a sight draft on F. C. Edwards, $360, and remitted it to H. P. Lord to apply on account.

28. Transferred to J. C. Simpson, by indorsement, the promissory note of Brown Brothers, $290.

H. P. Lord returned to us the sight draft in his favor drawn on F. C. Edwards on Feb. 25, with the statement that payment had been refused.

Close the journal and prepare the summary entry.

4. In the sales journal of James Dickson for May, 19—, there appeared, among the regular entries for sales of merchandise to customers, the following unusual entries:

May 10. Entry for goods taken out of stock by James Dickson, the proprietor, for personal use, to the value

of $50. The entry was checked by the bookkeeper in posting the sales journal.

May 17. Entry for a sale of goods to F. R. Ward, a creditor, $74. This entry was posted to Mr. Ward's regular account in the Accounts Payable ledger.

26. Entry for goods sold to Eric Paton, the bookkeeper, at cost price, $17.50. This amount was to be applied against the salary of the bookkeeper for the month of May. In posting the sales journal, the bookkeeper checked this entry.

The sales journal was summarized in the usual way at the end of May. Show the entry, or entries, required in the general journal, because of these particular entries in the sales journal.

5. In George Wilson's purchase journal for the month of July, there appeared an entry dated July 19 for a purchase of merchandise from G. B. Chapin, a customer. The amount was $124.50. The bookkeeper posted this amount from the purchase journal to the customer's regular account in the Accounts Receivable ledger. At the end of the month the purchase journal was summarized in the usual way.

Show the entry necessary in the general journal as a result of the foregoing procedure.

6. Record the following in a cashbook having money columns arranged as follows: *receipts side*—Net Cash, Accounts Receivable, Sales Discount, General Ledger; *payments side*—Net Cash, Accounts Payable, Purchase Discount, General Ledger:

April 1, 19—. Balance $9,462.50.

2. Paid F. Jacques, landlord, for April rent, $190.

4. Received a check from E. J. Andrews for our invoice of March 25, $372.50 less 2%.

7. Bought stamps and stationery for cash, $11.50.

8. Paid a 60-day note of $1,150 in favor of the Exchange Bank, due to-day, with interest at 6%.

10. Paid May & Co. for their invoice of April 1, $239.75 less 2%.

14. Discounted at the bank the 60-day note of W. H. Perney, $590, dated April 8 without interest.

April 15. Paid office salaries to date $117.
Paid for repairing electric sign, $4.65.

17. The Exchange Bank returns to us the note of L. J. Chambers, one of our customers, with the statement that payment had been refused. We had discounted the note at the bank on March 19. The bank charged our account with the face of the note, $366.50, and protest fees, $1.25.

18. Received a check from Hall & Hale for our invoice of April 9, $424.10 less 2%.

20. Paid freight on incoming merchandise, $23.90.

23. Discounted at the bank the note of D. E. Wade, $475, dated April 11 and to run for 60 days, with interest at 6%.

25. Paid H. P. Weston for his invoice of April 16, $315.65 less 2%.

26. Gave C. O. Fay, a customer, a check for $27 as a refund for an overpayment of his account.

28. Lane Brothers returned a part of merchandise purchased on April 12, and we send them a check for $31.50, since they had already paid their account in full.

29. George Ford paid his note due to-day, $425.

30. Paid office salaries to date, $117.
Paid sundry expense bills in cash, $12.50.

Close the cashbook and prepare summaries for the posting of totals. Bring down the cash balance.

7. P. J. Duff, whose ledgers are shown on pages 44–49, explains to his bookkeeper that any subsidiary ledger may be made *self-balancing* by constructing in it a "Balance Account" exactly the reverse of the controlling account for that ledger.

Turn to page 45 and, with the Accounts Receivable and the Accounts Payable controlling accounts as a guide, construct the two Balance Accounts, one for the customers' ledger and the other for the creditors' ledger, which would make it possible to take a trial balance from each of these ledgers.

Chapter V

APPLICATION OF PRINCIPLES—PRACTICE SET

Introductory.—The purpose of this chapter is to provide material for the application of those principles and practices in bookkeeping which have been studied up to this time. The use of the special-column journals and the handling of subsidiary ledgers and controlling accounts will be particularly emphasized. The transactions which compose the business narrative have been selected and arranged in such a way as to eliminate needless repetition. The entire bookkeeping cycle is to be followed through, from the opening of a set of double-entry books to the preparation of statements of results and the final, or closing, entries.

Books to be used.—The records are to be kept in books of account as here described:

General Journal.—A six-column general journal is to be used with columns arranged as follows: *debit side*—Notes Receivable, Accounts Payable, General Ledger; *credit side*—General Ledger, Accounts Receivable, Notes Payable.

Cash Journal.—The money columns in the cash journal are to be arranged as follows: *receipts side*—Net Cash, Accounts Receivable, Sales Discount, General Ledger; *payments side*—Net Cash, Accounts Payable, Purchase Discount, General Ledger.

Purchase Journal.—Purchases of merchandise will be recorded in a journal arranged with columns for terms, invoice number, date of invoice and amount.

Sales Journal.—This journal will provide for all entries for sales of merchandise, with columns for terms, sales number, discount date and amount.

General Ledger.—All accounts, except accounts of customers and creditors, will be kept in this ledger. Included will be the controlling accounts, Accounts Receivable and Accounts

Payable, to control the customers' ledger and the creditors' ledger, respectively.

The following accounts will appear in the general ledger, *four* accounts on each page:

Cash	General Expense
Notes Receivable	Delivery Expense
Accounts Receivable	Insurance Prepaid
Merchandise Inventory	Office Salaries
Purchases	Notes Payable
Purchase Returns and Allowances	Accounts Payable
Freight and Cartage In	R. E. Canning, Capital
Furniture and Fixtures	R. E. Canning, Personal
Delivery Equipment	Interest Earned
Sales	Interest Cost
Sales Returns and Allowances	Purchase Discount
Rent	Sales Discount
Office Supplies	Profit and Loss

Customers' Ledger.—Accounts for all trade customers are to be kept in this ledger, *four* accounts on each page.

Creditors' Ledger.—This ledger will contain all accounts of creditors of the business, *four* accounts on each page.

Preliminary instructions.—The Balance Sheet of R. E. Canning, a wholesale dealer in plumbers' supplies, appeared as follows on June 1, 19—:

R. E. CANNING
Balance Sheet, June 1, 19—

Assets		
Cash	$4,377.25	
Notes Receivable	411.50	
Accounts Receivable	936.70	
Merchandise Inventory	2,584.50	
Furniture and Fixtures	370.00	
Total Assets		$8,679.95
Liabilities		
Notes Payable	$ 900.00	
Accounts Payable	1,137.50	
Total Liabilities		2,037.50
Capital		
R. E. Canning, Net Worth		6,642.45
		$8,679.95

The foregoing Balance Sheet was supported by schedules which gave the following additional information:

Notes Receivable.—Note of the Marlin Builders Corporation for $300, dated May 29, at 60 days, with interest at 6%; note of E. F. Wendell for $111.50, dated May 9 at one month, without interest.

Accounts Receivable.—Baker & Thompson, 210 South Avenue, City, May 26, terms 2/10, n/30, $367.50; R. L. Colbert, 640 Center St., City, May 25, terms 2/10, n/30, $425.20; A. L. Graham, 388 Lincoln Avenue, City, May 2, terms 2/10, n/30, $144.

Notes Payable.—Note in favor of the Bradley Manufacturing Co., Scranton, Pa., $900, dated May 30 and to run for 30 days with interest at 6%.

Accounts Payable.—Kirk Brothers, 950 Arlington St., Trenton, N. J., May 29, terms 2/10, n/30, $625; Gates Supply Company, 815 Palmer Avenue, Philadelphia, Pa., May 31, terms 3/10, n/60, $512.50.

Make an entry in the general journal to open a new set of books for Mr. Canning, securing your information from the Balance Sheet and the supporting schedules.

Enter the cash balance on the receipts side of the cash-book, putting the amount in the Net Cash column only. Underline this amount. (The debit to the cash account, in the opening journal entry, is to be posted to the ledger account for cash.)

Record the following transactions for the month of June in the books of original entry already described:

Memorandum of Transactions for June

1. Paid the Kline Realty Co. by check, for June rent, $160.
   Received an invoice from the Central Office Supply Co. for office supplies, $23.65, terms 2/10, n/30.

2. Sold merchandise to Dawson & Daly, 311 North Avenue, City, terms 2/10, n/30, $422.80. (Invoice No. 216.)
   Sold merchandise to B. W. Diamond, 64 Washington St., City, terms 2/10, n/30, $584.50. (Sales No. 710.)

4. Received a check from R. L. Colbert for our invoice of May 25, $425.20 less 2%.
Received an invoice from the Meyer Pipe Company, 531 Main St., Cleveland, for merchandise purchased, terms 2/10, n/30, $293.50.
Received a statement from the bank showing the bank balance to be $4,753.19 at June 1. The bank had allowed interest on May balances, $5.64, and had charged $2.40 for collection on out-of-town checks. The following May checks were not returned: No. 131, $238.50; No. 135, $50; No. 137, $84.20. Prepare a reconciliation statement.
Be sure to make entries in your cashbook for the interest allowed and the collection charges. Debit General Expense for the collection.
Paid a premium of $84 on an insurance policy of $2500 covering the stock of merchandise for one year.

5. Baker & Thompson paid for our invoice of May 26, $367.50, less 2%.
Discounted at the bank the interest-bearing note of the Marlin Builders Corporation, $300. (See schedule of Notes Receivable at June 1.)
Mr. Canning withdrew cash for personal use, $60.

6. Sent a check to Kirk Brothers in payment of their invoice of May 29, $625 less 2%.
Issued a sales invoice to R. L. Colbert, City, terms 2/10, n/30, $521.90.
Paid the bill of the Simplex Printing Co. for printing letter-heads and invoice forms, $16.
Left the note of E. F. Wendell, due June 9, at the bank for collection.

8. Received an invoice from Kirk Brothers for merchandise purchased, terms 2/10, n/30, $710.30.
Paid cash for repairs made to electric sign, $7.50.

9. Paid the Central Office Supply Co. for their invoice of June 1, $23.65 less 2%.
Sent a check to the Gates Supply Co. in payment of their invoice of May 31, $512.50 less 3%.

11. Drew a sight draft on A. L. Graham to collect for our invoice of May 2, $144. Left the draft at our bank for collection.

    The bank returned the note of E. F. Wendell, $111.50, due June 9, and left for collection on June 6, with the statement that payment had been refused. The bank charged $1.50, protest fees, to our account. (Use cashbook and general journal.)

12. Received checks from the following customers: Dawson & Daly, invoice of June 2, $422.80 less 2%; B. W. Diamond, invoice of June 2, $584.50 less 2%.

    Sold merchandise to Baker & Thompson, terms 30-day note, $472.50.

13. Paid Meyer Pipe Co., Cleveland, for their invoice of June 4, $293.50 less 2%.

    Received notice from the bank that our sight draft on A. L. Graham, left for collection on June 11, had been paid and proceeds, $144, credited to our account.

    Received the 30-day note of Baker & Thompson, $472.50, dated June 12, in settlement of our invoice of that date.

15. Paid office salaries to date, $140.

    Received a credit memorandum, $62.50, from Kirk Brothers for an allowance on our purchase from them under invoice received on June 8. Some of the goods did not agree with the specifications on our order.

    Purchased a delivery truck from the James Motor Company, 310 Hudson St., City. The price, delivered, was $900. Mr. Canning gave a check for $500 and a 60-day note, bearing interest at 6%, for $400. (Use general journal, two entries, and cashbook.)

16. Issued a sales invoice to E. B. Cummings, terms 2/10, n/30, $315.75.

    Discounted at the bank the 30-day note of Baker and Thompson, $472.50, dated June 12.

    Paid cash for gasoline and oil for the truck, $9.75.

17. Sent a check to Kirk Brothers in payment of their invoice of June 8, $710.30, less allowance of $62.50 made on June 15 and less 2%.

19. E. B. Cummings returned merchandise sold to him on our invoice of June 16 and received a credit memorandum for $43.50.
Received a check from E. F. Wendell in payment for his note dishonored on June 9 and the protest fees charged by our bank. Amount of check, $113.

20. Sold merchandise to A. L. Graham, terms 20-day note, $231.80.
Sold merchandise to B. W. Diamond, terms 2/10, n/30, $394.40.

22. Received invoice for merchandise purchased from Kirk Brothers, terms 2/10, n/30, $846.75.
Received invoice for merchandise purchased from Brown, Eddy & Co., Toledo, Ohio, terms 30-day draft, $694.55.
Paid freight bills on incoming merchandise, $117.50.

24. A. L. Graham returned a part of merchandise sold to him on June 20. We issued a credit memorandum for $21.30.
Issued a sales invoice to Baker & Thompson, terms 2/10, n/30, $254.75.
Accepted and returned to Brown, Eddy & Co., their 30-day draft, $694.55 in payment of invoice of June 22.

25. Received invoice from Gates Supply Co., terms 3/10, n/60, $164.25.
Sold merchandise to Dawson & Daly, terms 20-day note, $215.

26. Received a check from E. B. Cummings in payment of our invoice of June 16, $315.75, less goods returned on June 24 and less 2%.
A letter is received from Baker & Thompson calling our attention to an error on our invoice to them, dated June 24. We had overcharged them $10. A credit memorandum is issued for this amount.

28. Received invoice from the Meyer Pipe Co. terms 2/10, n/30, $77.50.
Received the 20-day note of Dawson & Daly, dated June 25, in settlement of our invoice of June 25, $215.
Received invoice from Brown, Eddy & Co., terms 2/10, n/30, $128.40.

Paid cash for supplies for the delivery truck, $6.70.

29. Paid by check the 30-day note and interest in favor of the Bradley Manufacturing Co., dated May 30, $900; rate of interest, 6%.
Paid cash for cleaning store windows, $7.50.
Issued sales invoices to the following customers: E. B. Cummings, 2/10, n/30, $293.84; Dawson & Daly, 3/10, n/60, $314.60.

30. Received from B. W. Diamond his 30-day note for $388.44 in settlement of our invoice of June 20, $394.40 less 2%. Interest for 30 days had been added to the face of the note.
Paid office salaries to date, $140.
Paid the bill of the Modern Garage, storage space for the delivery truck for two weeks in June, $15.
Paid freight bills on incoming merchandise, $69.90.

Instructions:

1. Close the journals and prepare summaries to indicate the posting of totals. Bring down the cash balance.

2. Post to the three ledgers used. As you post, rule off all accounts, or parts of accounts, that balance.

3. Take a Trial Balance of the general ledger.

4. Prepare abstracts of the Accounts Receivable and the Accounts Payable ledgers, to prove their agreement with the proper controlling account in each case.

5. Prepare a Statement of Profit and Loss, taking into account the following inventories at June 30:

Merchandise	$2,650.00	
Furniture and Fixtures, cost less 2%		
Delivery Equipment, cost less 5%		
Insurance Prepaid		77.00
Office Supplies		12.00

6. Prepare a Balance Sheet at June 30.

7. In the general journal, make adjusting and closing entries necessary to complete the general ledger records. Post to the general ledger.

8. Rule off all accounts that are in balance; balance all open accounts in the general ledger.

9. Check the balances of all accounts in the general ledger with the Balance Sheet.

Chapter VI

ACCRUALS

Meaning of accruals.—At the end of an accounting period, when the books are being closed and statements of results prepared, it frequently happens that some items of income and of expense have not been recorded. The reason is that income from certain sources, although earned, has not been received and that certain expenses, although incurred, have not been paid for.

Under one plan of keeping books of account, commonly referred to as the "cash basis," no notice is taken of the income and expense mentioned above. In this case, the books would not tell the truth, and the statements prepared from them would have to neglect certain facts about assets, liabilities, and capital that had not been recorded.

Under a different method of keeping the books, commonly called the "accrual basis," all items of income and expense are taken into account in order that the books, and the statements prepared from them, may show all the facts. This is another way of stating that the accrual basis of keeping books of account provides for a record of every asset, every liability, and every capital change within a given accounting period.

Accrued Interest Receivable.—The simplest illustration of an accrual is seen in the case of interest-bearing notes receivable. Interest accumulates, or "accrues," on such a promissory note each day until the maker pays the face of the note and the interest due at maturity. If interest-bearing notes are held at the time of closing books, a part of the interest finally to be collected has been earned and should be taken into account.

As an illustration, assume that you hold a customer's note of $600, dated March 11 and to run for 30 days, with interest at 6%. If you are closing your books at March 31, the debit of $600 in the Notes Receivable account does not show the

entire value of this note. Interest has accrued for 20 days and amounts to $2. If the maker of the note should pay the interest to March 31, the matter would be simplified and the following entry (in journal form) would result:

	March 31, 19—			
	Cash	2 00		
	Interest Earned			2 00
	For interest paid by H. R. Roe on his note of $600, dated March 11.			

Since the maker of this note will pay nothing, however, until the maturity of the note, other means must be found by which to record the increase in the assets of the business and the resulting increase in capital. The interest which has accumulated is called Accrued Interest Receivable, and this increase in assets and the corresponding increase in capital, require an adjusting entry at March 31. This is illustrated as follows:

Accrued Interest Receivable

19— Mar.	31			2 00				

Interest Earned

					19— Mar.	31	Previous entries	12 50
						31	Accrual	2 00

The Interest Earned account, shown above, now has a balance of $14.50, the total amount of the interest earned during the period just ended. This amount would appear on the Profit and Loss Statement as "Other Income." The account would then be closed into Profit and Loss, as follows:

Interest Earned

19— Mar.	31	Profit and Loss		14 50	19— Mar.	31	Previous entries	12 50
						31	Accrual	2 00
				14 50				14 50

Profit and Loss

								19—					
								Mar.	31	Interest Earned		14	50

The Accrued Interest Receivable account represents an asset of the business. It remains open at the time of closing the books, and would be listed on the Balance Sheet as one of the assets at March 31.

Reversing the accrual entry.—After closing the ledger and preparing the financial statements, the accrual entry already illustrated should be reversed. Such an entry is often referred to as a "post-closing entry." This step is taken to make the account, Interest Earned, show the correct amount of income from that source, applicable to the next accounting period.

When the note mentioned in the foregoing illustration is paid by the maker at the due date, April 10, the payment for interest will amount to $3. The bookkeeper might divide this amount, crediting Accrued Interest Receivable for $2 and Interest Earned, $1. But, if several interest-bearing notes had been taken into account, at the time of closing the books the better plan would be to reverse the accrual entry, making it unnecessary to divide the amounts paid for interest as the several notes fall due and are paid during the next accounting period.

This procedure is illustrated as follows:

Accrued Interest Receivable

19—								19—					
Mar.	31				2	00		Apr.	1	Reversal		2	00

Interest Earned

19—								19—					
Mar.	31	Profit and Loss		14	50			Mar.	31	Previous entries		12	50
									31	Accrual		2	00
				14	50							14	50
19—								19—					
Apr.	1	Reversal		2	00			Apr.	10	Cash		3	00

Accrued Interest Payable.—After the foregoing studies of Accrued Interest Receivable, the treatment of Accrued Interest Payable should present no difficulty.

To illustrate, assume that at the time of closing the books on March 31 you have outstanding a promissory note in favor of the Merchants Bank, for $1200, dated March 7 and to run for two months with interest at 6%. Since March 7 the liability to the bank has increased by $4.80, the amount of the interest on the note for 24 days at 6%. Moreover, because of the increase in liabilities, $4.80, there has been a corresponding decrease in capital. These facts must be recorded if the books, and the statements prepared from them at March 31, are to reflect the truth.

The liability of $4.80 is called "Accrued Interest Payable." Of course, the decrease in capital is due to Interest Cost. An adjusting entry must be made at March 31, as follows:

Interest Cost

19—											
Mar.	31	Previous entries		15	00						
	31	Accrual		4	80						

Accrued Interest Payable

						19—					
						Mar.	31			4	80

The Interest Cost account now shows a balance of $19.80, including previous debits to the account during the period. This amount is shown on the Profit and Loss Statement among the "Deductions from Income." The account is then closed into Profit and Loss, as illustrated below:

Interest Cost

19—						19—					
Mar.	31	Previous entries		15	00	Mar.	31	Profit and Loss		19	80
	31	Accrual		4	80						
				19	80					19	80

Profit and Loss

19—													
Mar.	31	Interest Cost			19	80							

The account, Accrued Interest Payable, remains open at the time of closing the ledger and is listed on the Balance Sheet among the liabilities.

Following the closing of the ledger at March 31, and before beginning the April records, the adjusting entry for the accrued interest payable should be reversed. By transferring the balance of the Accrued Interest Payable account to the Interest Cost account at April 1, the latter account will be made to show the correct amount of the cost of interest for the following period. The following accounts show the reversal entry, as well as the entry for payment of interest at May 7:

Interest Cost

19—							19—						
Mar.	31	Previous entries			15	00	Mar.	31	Profit and Loss			19	80
	31	Accrual			4	80							
					19	80						19	80
19—							19—						
May	7	Cash			12	00	Apr.	1	Reversal			4	80

Accrued Interest Payable

19—							19—						
Apr.	1	Reversal			4	80	Mar.	31				4	80

Other accrued receivables.—The procedure outlined in handling accrued interest receivable should be followed in the case of income earned, but not yet received, from various other sources. Thus, rent may be due from a tenant of property owned by one whose books you are keeping. Rent is ordinarily paid at the beginning of each month, the required entry calling for a debit to Cash and a credit to Rent Income. However, if any amount is owed by the tenant at the time of closing the books, this must be taken into account by a debit to Ac-

crued Rent Receivable and a corresponding credit to Rent Income. The foregoing adjusting entry would be "reversed" after closing the Rent Income account into Profit and Loss.

In a like manner, interest accrued but not yet received, on investments held by the business, would have to be taken upon the books at the time of closing. It might be satisfactory to debit Accrued Interest Receivable and credit Interest Earned. If, however, a more exact classification is desired for the purposes of the statements to be prepared, the entry would be: debit Accrued Interest on Investments and credit Interest on Investments. In either case, the entry would be reversed after closing the books.

Other accrued liabilities.—In addition to interest that has accrued on outstanding notes payable, it will usually be found necessary to take into account other accrued liabilities. Their treatment will not differ in any essential respect from that illustrated in the handling of accrued interest payable. Common examples are seen in connection with salaries unpaid; freight bills received but not paid; lighting and telephone bills owing, and so forth. It would be correct, in principle, to debit the proper accounts for the above items as though cash were being paid and to open accounts to credit each person to whom an amount is owing. But this procedure is not, as a rule, followed.

Salaries unpaid are taken upon the books by debiting Salaries and crediting Salaries Accrued. When the books have been closed, the accrual entry should be reversed so as to cause the Salaries account to show the proper amount chargeable against the income of the next accounting period. The following accounts illustrate this procedure:

Salaries

19—						19—					
Mar.	31	Previous entries		350	00	Mar.	31	Profit & Loss		395	00
	31	Accrual		45	00						
				395	00					395	00
19—						19—					
Apr.	4	Cash		95	00	Apr.	1	Reversal		45	00

Salaries Accrued

19— Apr.	1	Reversal			45	00	19— Mar.	31				45	00

Profit and Loss

19— Mar.	31	Salaries			395	00							

In preparing the financial statements, the total of the Salaries account, including the debit for the accrual, will appear on the Profit and Loss Statement under "Operating Expenses." The Salaries Accrued account remains open when closing entries are made. It represents a liability and would appear as such on the Balance Sheet.

In handling miscellaneous accrued liabilities, a convenient plan is to employ the Sundry Liabilities account to represent the liability element for the combined total. The debit in each case is the same as though cash were paid. It should be noted that here, as in the case of all other accruals, the entry or entries to be made must reflect the changes in assets, liabilities, and capital.

To illustrate, assume that, at the end of an accounting period, the following bills are owing but have not been taken upon the books:

Telephone bill	$7.50
Lighting bill	9.35
Garage bill (auto supplies)	12.75
Freight (on purchases)	47.40

These bills will be paid in cash within a few days after closing the books. In the meantime, they must be taken into consideration. The following accounts show these items recorded; the closing of the accounts to which they were debited; the reversal entries; and, finally, the situation after these bills have been paid early in the next accounting period:

General Expense

19—						19—					
Mar.	31	Previous entries	88	60		Mar.	31	Profit & Loss	105	45	
	31	Accrual	16	85							
			105	45					105	45	
19—						19—					
Apr.	2	Cash	7	50		Apr.	1	Reversal	16	85	
	4	Cash	9	35							

Delivery Expense

19—						19—					
Mar.	31	Previous entries	160	00		Mar.	31	Profit & Loss	172	75	
	31	Accrual	12	75							
			172	75					172	75	
19—						19—					
Apr.	3	Cash	12	75		Apr.	1	Reversal	12	75	

Freight-In

19—						19—					
Mar.	31	Previous entries	110	00		Mar.	31	Purchases	157	40	
	31	Accrual	47	40							
			157	40					157	40	
19—						19—					
Apr.	2	Cash	47	40		Apr.	1	Reversal	47	40	

Sundry Liabilities

19—						19—					
Apr.	1	Reversal	77	00		Mar.	31	General Expense	16	85	
							31	Delivery Expense	12	75	
							31	Freight-In	47	40	
			77	00					77	00	

The accrual entries in journal form.—The adjusting entries for accruals are, of course, made in the general journal. The following is an illustration of accrual entries in journal form:

General Journal

Accounts Payable	General Ledger	F.	March 31, 19—	General Ledger	Accounts Receivable
	2 00		Accrued Interest Receivable		
			Interest Earned	2 00	
			To record interest accrued on Notes Receivable.		
			—31—		
	4 80		Interest Cost		
			Accrued Interest Payable	4 80	
			To record interest accrued on Notes Payable.		
			—31—		
	200 00		Accrued Rent Receivable		
			Rent Income	200 00	
			For rent owing on property at 410 Main St., for March.		
			—31—		
	45 00		Salaries		
			Salaries Accrued	45 00	
			For salaries unpaid to date.		
			—31—		
	16 85		General Expense		
	12 75		Delivery Expense		
	47 40		Freight-In		
			Sundry Liabilities	77 00	
			To record bills owing as follows:		
			Telephone $7.50		
			Lighting 9.35		
			Garage bill 12.75		
			Freight-In 47.40		

The above entries should be reversed under date of April 1, 19—, after the closing entries have been made and posted, and after the ledger has been ruled up and the statements prepared.

Review Questions

1. What is meant by accrued income? Accrued expense? Give an example of each.

2. Does accrued income also involve an accrued asset? Illustrate.

3. Does accrued expense also involve an accrued liability? Illustrate.

4. What is meant by keeping books on a "cash basis"? On an "accrual basis"?

5. Are both the Balance Sheet and the Statement of Profit and Loss affected by an entry for accrued income? Explain.

6. Are both the Balance Sheet and the Statement of Profit and Loss affected by an entry for accrued expense? Explain.

7. What is the purpose of entries to reverse the accruals after closing the books?

8. Explain the purpose of the Sundry Liabilities account. Would the account, Accrued Liabilities, have the same general meaning?

9. What section of the Statement of Profit and Loss is affected by an entry for accrued income?

10. What two sections of the Statement of Profit and Loss may be affected by several entries for accrued expenses? Explain.

Exercises

1. At the time of closing his books at June 30, 19—, H. F. Erwin has a promissory note of a customer, for $615.75, dated June 19, to run for 30 days with interest at 6%.

(a) Calculate the interest accrued on the note to June 30.
(b) Show the adjusting entry to be made in the general journal. Make a full explanation.
(c) Assuming that the Interest Earned account had a credit of $11.75 before the entry was made under (b) above, show the closing entry, with full explanation, to dispose of the Interest Earned account.
(d) Show the entry to reverse the accrual entry.

2. James R. Small owned the following interest-bearing notes receivable when closing his books at December 31, 19—:

$493.50, dated November 10, at 60 days, interest 6%.
$236.75, dated November 25, at 60 days, interest 6%.
$600.00, dated December 10, at 30 days, interest 5%.

(a) Find the total interest accrued on the above notes to December 31.

(b) Show the adjusting journal entry. (All journal entries must have full explanation.)
(c) Make the closing entry for the Interest Earned account, assuming that it had credits totaling $10.60 before the adjusting entry was made.
(d) Show the reversal entry.

3. Set up the two accounts, Accrued Interest Receivable and Interest Earned, and show them exactly as they would appear after posting the adjusting entry, the closing entry, and the reversal entry in (b), (c), and (d), question 2. (Show necessary ruling.)

Assuming that each of the notes mentioned in question 2 was paid in cash at maturity, show the entry in the Interest Earned account as each note is paid.

4. George Andrews owns a two-story business building, and uses the first floor for his printing business. The upper floor is rented at $210 per month.

Mr. Andrews is closing his books for the quarterly period ended June 30, 19—. The tenant paid the rent, as agreed, on April 1 and on May 2. The rent for June has not been paid.

Set up all necessary accounts to show:

(a) Payment of rent for April and May.
(b) The adjusting entry for the accrual at June 30.
(c) The income account closed at June 30.
(d) The adjusting entry reversed at July 1.
(e) Payment of $420 by the tenant on July 2, covering rent for June and July.

5. The Brownell Manufacturing Company invests part of its surplus funds in the stocks and bonds of other companies. At the time of closing the books on December 31, 19—, it had investments of this kind to the amount of $12,500. Interest had accrued, $97.50, on these investments.

Show the adjusting entry to be made in the general journal before closing the books at December 31. Show the reversal entry to be made after closing the books.

6. R. H. Payson had a note of $1,734.83 outstanding in favor of Burke & O'Hara on September 30, 19—. The note was dated September 4, and was to run for 60 days, with interest at 6%.

Mr. Payson is closing his books for the three months' period ended September 30. Show the adjusting entry for the amount of the accrued interest.

7. Heiges and Ralston, retail merchants, have the following promissory notes outstanding at March 31:

$637.50, dated March 12, at 60 days, interest 6%.
$400.00, dated March 20, at 30 days, interest 5%.
$523.10, dated March 25, at 30 days, interest 6%.

(a) Calculate the total interest accrued on the above notes.
(b) Show the adjusting entry necessary in the general journal, if the books are to be closed at March 31.
(c) Show the closing entry affecting the Interest Cost account, assuming that the account had a total debit of $24.50 before the adjusting entry was made.
(d) Show the journal entry to reverse the accrual entry.

8. Set up accounts for Interest Cost and Accrued Interest Payable. Show these accounts as they would appear (including proper ruling) after the entries in (b), (c), and (d), question 7, had been posted.

Assuming that the notes mentioned in question 7 were all paid in cash at maturity, show the entries in the Interest Cost account on the proper dates of payment.

9. In closing a set of books at August 31, the bookkeeper took into account unpaid salaries to the amount of $77.50. What adjusting entry was made?

10. Show the adjusting entries to record the following facts at October 31, 19—:

Accrued interest on Notes Receivable amounts to $11.50.
A tenant owes rent for October, $150.
Office salaries are unpaid, $87.50.
Accrued Interest on Notes Payable amounts to $19.60.
Freight bills on goods purchased are unpaid, $34.90.
An unpaid water bill amounts to $9.
Subscription to a trade journal is due, $7.50.

11. The following trial balance was taken from the ledger of R. E. Consens on April 30, 19—:

Cash	$1,000.00	
Notes Receivable	600.00	
Accounts Receivable	1,900.00	
Merchandise Inventory, Jan. 1, 19—	6,500.00	
Office Fixtures	300.00	
Purchases	7,000.00	
Sales		$8,200.00
Sales Returns	265.00	
Sales Discounts	143.00	
Purchase Returns		210.00
Purchase Discounts		195.00
Accounts Payable		2,200.00
Notes Payable		900.00
R. E. Consens, Capital		6,845.00
R. E. Consens, Personal	90.00	
General Expense	235.00	
Insurance	120.00	
Salaries	400.00	
Interest Earned		25.00
Interest Cost	22.00	
	$18.575.00	$18,575.00

Additional information at April 30:

Merchandise Inventory	$6,900.00
Office Fixtures, at cost less 1%	
Insurance Prepaid	80.00
Interest Accrued on Notes Receivable	3.75
Interest Accrued on Notes Payable	4.40
Salaries unpaid	44.50
Freight on purchases, unpaid	29.70

Prepare:

(a) Adjusting entries necessary to prepare the books for closing at April 30.

(b) A Statement of Profit and Loss for the four months ended April 30.

(c) A Balance Sheet.

(d) The entries necessary to complete the ledger at April 30.

(e) The reversal (or post-closing) entries to be made on May 1.

12. For this question, use a six-column journal with columns for Notes Receivable Dr., Accounts Payable Dr., General Ledger Dr., General Ledger Cr., Accounts Receivable Cr., Notes Payable Cr.

On December 31, 19—, the Balance Sheet of John Wilson showed the following assets and liabilities:

Assets.—Cash, $4,623.50; Notes Receivable, $1,100; Accrued Interest Receivable, $4.60; Accounts Receivable, (J. R.

Payne, $650, and W. E. Hamlin, $475); Merchandise Inventory, $3,500; Office Equipment, $310; Office Supplies, $60.

Liabilities.—Notes Payable, $1,500; Accrued Interest Payable, $7.35; Accounts Payable, (Wood Bros., $875 and D. C. Norton, $900); Salaries Accrued, $115; Sundry Liabilities, $84.

Show the journal entry to open a new set of books.

13. After taking the trial balance preparatory to closing a set of books at December 31, 19—, it was learned that the bank had allowed interest on balances during December, $8.44.

What entry should be made? What journal should be used?

What procedure should be followed after closing the books?

Chapter VII

DEFERRED ITEMS

Deferred charges to expense.—When temporary assets, such as office supplies, fuel, or automobile supplies are purchased, the assets of the business are increased and it becomes necessary to debit an account to represent these temporary assets. Such assets are referred to as "expense assets"; they are temporary in nature because they are intended for immediate use within the business and are usually consumed within a short time.

The accounts used to record the purchase of these expense assets all belong to the asset element in bookkeeping. An expense does not occur when these things are purchased, but does occur as they are used up, or consumed. This consumption of expense assets goes on throughout an entire accounting period; and, to keep the books constantly up to date, it would be necessary to record daily the amount of office supplies used, the fuel burned, and so forth. All practical needs are served, however, if the entries to record the consumed portions of these temporary assets are made at the end of each accounting period, just before closing the books and preparing statements.

To record the consumed portion of an expense asset is to charge it to the appropriate capital account, at the same time crediting the temporary asset account. Any remaining inventory, or balance, is carried over to the next period and is referred to as a "deferred charge to expense."

The adjusting entries to be made, in connection with these deferred charges to expense, will be illustrated in this chapter.

Adjusting entries for deferred charges to expense.—As already pointed out, it is common practice to ignore the consumption of expense assets until the end of each accounting period. Stock-taking reveals the amount of each on hand. The amount used up is then readily determined and the required entry made.

To illustrate, assume that office supplies, in various amounts totaling $65, were purchased during the period from January 1 to June 30. If $15 worth of office supplies remains on June 30, it is evident that the expense for office supplies was $50 during the period. This expense has not been recorded.

The required entry is as follows:

June 30, 19—		
Office Supplies Used	$50	
Office Supplies		$50
To record the amount of office supplies used.		

On the statements, "Office Supplies Used, $50," will appear on the Profit and Loss Statement among the operating expenses, while "Office Supplies, $15," will appear on the Balance Sheet as one of the assets.

In completing the ledger, the following closing entry will be made in connection with the Office Supplies Used account:

June 30, 19—		
Profit and Loss	$50	
Office Supplies Used		$50
To close the above account into Profit and Loss.		

The Fuel account is handled in the same manner. Thus, if the Fuel account totaled $190 for the period from January 1 to June 30, and the fuel inventory at June 30 was $45, the adjusting entry would be:

June 30, 19—		
Fuel Expense	$145	
Fuel		$145
To record fuel expense for the period January–June.		

The closing entry:

June 30, 19—		
Profit and Loss	$145	
Fuel Expense		$145
To close the above account into Profit and Loss.		

Another illustration of an account requiring adjustment is seen in the case of the Insurance account. As insurance is always paid in advance, a portion of the time covered by the premium is likely to remain unexpired at the time of closing

the books. To charge the accounting period just ended with the proper amount of insurance expense, an adjusting entry is necessary.

To illustrate, assume that on June 30 the Insurance Prepaid account shows a debit of $120, but that $40 of this represents premium for unexpired time. The following entry is made:

June 30, 19—		
Insurance Expense	$80	
Insurance Prepaid		$80
To record expired portion of insurance premium.		

The closing entry would be:

June 30, 19—		
Profit and Loss	$80	
Insurance Expense		$80
To close the above account into Profit and Loss.		

Other deferred charges to expense.—Advertising is frequently paid in advance on contracts to run for several months or a year. When closing the books, care should be taken to charge, against the operations of the period just ended, only that amount of advertising expense applicable to that period.

Thus, if advertising has been paid in advance for one year to the amount of $300, and the books are to be closed at the end of the first four months, the adjusting entry is as follows:

March 31, 19—		
Advertising Expense	$100	
Advertising Prepaid		$100

The closing entry then is:

March 31, 19—		
Profit and Loss	$100	
Advertising Expense		$100

When a note is discounted at the bank, the discount charged by the bank is interest paid in advance. The amount of such discount is charged to Interest Cost. But this cost of obtaining capital should be apportioned to the particular accounting periods during which borrowed capital is used.

To illustrate, assume that you discount your 90-day note

for $3000 at your bank on May 1, the discount being 6%. The following entry is necessary (journal form):

May 1, 19—		
Cash	$2,955	
Interest Cost	45	
Notes Payable		$3,000

If the books are closed on June 30, only 60 days after discounting the foregoing note, it is clear that the interest cost has been 2/3 of $45; or $30. To remove the amount of interest prepaid from the Interest Cost account, the following adjusting entry is made:

June 30, 19—		
Prepaid Interest	$15	
Interest Cost		$15
To remove from the Interest Cost account the amount of interest paid in advance.		

The Prepaid Interest account represents an asset of the business and will appear on the Balance Sheet as one of the Deferred Charges to Expense.

Since the amount of the prepaid interest cost, $15, is applicable to the next accounting period, the adjusting entry should be reversed after closing the books, as follows:

July 1, 19—		
Interest Cost	$15	
Prepaid Interest		$15
To transfer the amount of interest prepaid to the Interest Cost account for the following period.		

It should be noted that a similar reversal entry was not required in the other cases of deferred charges to expense. The reason is that accounts such as Office Supplies, Fuel, Insurance Prepaid, and Advertising Prepaid are *asset* accounts. It was necessary therefore, merely to remove the *expense* element to a capital account, which, in turn, was closed into the Profit and Loss account. The Interest Cost account, however, *is a capital account.* The adjusting entry is made to remove the asset element (the prepaid interest), so that the remainder of the account may be closed out; the reversal entry throws the prepaid interest back into the capital account, Interest Cost, for the next period.

Deferred credits to income.—It sometimes happens that income is received in one accounting period although not fully earned until some time in the next period. In such a case, it becomes a problem for the bookkeeper to apportion this income properly.

To illustrate, assume that on January 2 you receive $600 from a tenant as rent for property, for the months of January, February, and March, and that you credited the account, Rent Income. If your books are to be closed on February 28, only $400 of the total collected has been earned. The remaining $200 represents a liability and is referred to as a "deferred credit to income."

The following adjusting entry should be made before closing the books, on February 28:

February 28, 19—		
Rent Income	$200	
Rent Income Deferred		$200
To transfer the unearned portion of rent income paid in advance.		

After closing the books, the foregoing adjusting entry should be reversed, because the income of $200 belongs to the next accounting period.

The reversal entry:

March 1, 19—		
Rent Income Deferred	$200	
Rent Income		$200
To transfer the amount of rent income prepaid to the Rent Income account for the following period.		

Another example of a deferred credit to income is seen in the case of interest received in advance.

To illustrate, assume that a customer owes $1,000 and settles his account on May 31 by giving a note for 60 days, with interest at 6% added to the face of the note. The entry at that time would be:

May 31, 19—		
Notes Receivable	$1,010	
Accounts Receivable (customer)		$1,000
Interest Earned		10

If the books are closed at June 30, only one-half of the total interest on the note has been earned by that time. The remainder must be deferred until the next accounting period.

The following adjusting entry is made:

June 30, 19—		
Interest Earned	$5	
Interest Income Deferred		$5
To transfer the unearned portion of interest income prepaid on notes receivable.		

The amount of the Interest Income Deferred account represents a liability and would be so listed on the Balance Sheet. After closing the books, the following entry should be made:

June 30, 19—		
Interest Income Deferred	$5	
Interest Earned		$5
To transfer the amount of interest income prepaid on notes receivable to the Interest Earned account for the following period.		

Review Questions

1. Explain what is meant by "expense assets." Give illustrations.

2. What is the nature of the accounts to which purchases of expense assets are charged?

3. When does expense take place in connection with expense assets?

4. Distinguish between "expense" and an "expense asset."

5. At what time in an accounting period are entries made to record the daily consumption of expense assets? What name is given such entries?

6. How is the amount of "expense" determined?

7. What is meant by a deferred charge to expense?

8. How are deferred charges to expense shown on the Balance Sheet?

9. What is meant by a "deferred credit to income"? How is it shown on the Balance Sheet?

10. Why is an adjusting entry made in connection with capital accounts credited with deferred income?

11. What is the object of reversing the adjusting entry made for deferred income?

12. Why are adjusting entries for deferred charges to expense not ordinarily reversed? What was one exception illustrated in this chapter?

Exercises

1. On April 30, 19—, the trial balance of E. F. Jordan contained, among others, the following accounts and balances:

Fuel	$265.50
Office Supplies	37.20
Insurance Prepaid	180.00

The following items appeared among the inventories at April 30:

Fuel on hand	$ 44.50
Office Supplies on hand	12.00
Insurance Prepaid	140.00

Prepare:

(a) Necessary adjusting entries.

(b) Closing entries.

2. On August 16, 19—, H. P. Jones discounted his note for $6000 at the Traders Bank. The note had 60 days to run, and the discount rate was 6%.

Prepare:

(a) The entry (journal form) to be made on August 16.

(b) The adjusting entry at September 30, assuming that Mr. Jones is closing his books.

(c) The closing entry, assuming that the Interest Cost account showed total debits of $83.75 before the adjusting entry in (b) was made.

(d) The reversal entry.

3. Set up all accounts involved in question 2, above, and show them exactly as they would appear after posting the entries called for in (a), (b), (c) and (d). (Show necessary ruling.)

Assuming that Mr. Jones paid the note when due, show the entries in the accounts involved.

4. Show adjusting entries to be made in connection with the following facts, before closing a set of books at June 30, 19—:

(a) Advertising had been paid in advance, $375, on May 1, the contract to run for six months.
(b) Insurance had been paid for one year beginning April 1, $120.
(c) The Stationery and Printing account showed a debit balance of $96. The inventory of stationery and printing was $25.
(d) Office salaries were unpaid, $75.
(e) An electric lighting bill of $6.90 had been received but not paid.
(f) A garage bill for storage of delivery truck for June was unpaid, $30.

5. H. F. Woodrow rents a store from W. J. Pearson at a monthly rental of $250. On December 1, 19—, he paid the rent for December and January, $500. The bookkeeper charged the payment to Rent Expense.

If Mr. Woodrow is closing his books on December 31, show:

(a) The necessary adjusting entry.
(b) The closing entry, assuming that the Rent Expense account had been debited for all the payments of rent since July 1. (The books had been closed on the previous June 30.)
(c) The necessary reversal entry at the beginning of January.

6. Assuming that, in question 5, the bookkeeper had charged all payments of rent since July 1 to Rent Prepaid, show on Woodrow's books:

(a) The adjusting entry at December 31.
(b) The closing entry.

Would a reversal entry be necessary, as in question 5(c)? Why?

7. The bookkeeper for W. J. Pearson, landlord (see question 5), credited all payments of rent from H. F. Woodrow to Rent Income. The books of W. J. Pearson are to be closed for the six months' period ended December 31, 19—. Show:

(a) The adjusting entry necessary.
(b) The closing entry, assuming that no other property was rented.
(c) The reversal entry.

Chapter VIII

VALUATION RESERVE ACCOUNTS

Depreciation of fixed assets.—*Fixed assets* are business assets of a permanent nature, such as furniture and fixtures, motor trucks, land and buildings, machinery, and so forth. All fixed assets, with the exception of land, decline in value as they are used within the business. This decrease in the value of fixed assets is known as *depreciation.*

The principal cause of depreciation is wear and tear. That is, assets actually wear out and eventually have to be replaced. Another cause is lapse of time. The mere fact that an asset is " second-hand " means a considerable reduction in value. New inventions may cause an asset to become more or less obsolete, and thus to depreciate rapidly. Depreciation may also be due to accidents, to new laws, or to certain economic causes.

Calculating depreciation.—The amount of periodic depreciation of any asset is, at best, an estimate. The nature of the asset, the use to which it has been put, and the length of time it has been in service must, ordinarily, be taken into consideration.

The common plan of determining the periodic amount of depreciation of any particular asset is known as the " straight-line method." Under this plan, the asset is estimated to last a certain number of years; and the depreciation for any one year is found by dividing the cost of the asset by the number of years of estimated life. Thus, if an asset cost $1000 and had an estimated life of 10 years, the amount of depreciation each year is $1000 ÷ 10, or $100.

But many assets are not entirely worthless when discarded or replaced. They often have a " scrap value," and this must be taken into consideration in estimating the amount of depreciation for a given period. Thus, if an asset cost $1500, and

is estimated to have a life of five years and a scrap value of $100, the amount of depreciation over the period of five years is $1500 – $100, or $1400. The depreciation for each year is, therefore, $1400 ÷ 5, or $280.

Recording depreciation.—Depreciation causes a decrease in the value of an asset and, therefore, a decrease in capital. The simplest method of recording these facts is to debit Profit and Loss and credit the asset account. For various reasons, however, it is advisable not to credit the asset account for depreciation, but to preserve the original cost in the asset account. For the purpose of analyzing changes in capital, moreover, it is advisable not to charge the amount of the depreciation of any asset directly to the Profit and Loss account. How the objections to the simple entry first indicated are overcome will be shown in the following illustration:

Assume that the Furniture and Fixtures account shows a cost of $500 on January 1, 19—, and that depreciation for the year was estimated at $100. On December 31, 19—, the decrease in capital is charged to the account, Depreciation of Furniture and Fixtures; and the decrease in the asset is credited to Reserve for Depreciation of Furniture and Fixtures. The latter account is merely the credit side of the Furniture and Fixtures account and serves to withhold the credit, due to depreciation, from the related asset account. The account, Depreciation of Furniture and Fixtures, is an expense account and is closed into Profit and Loss, along with other expense accounts.

The procedure outlined above is shown in the following accounts:

Furniture and Fixtures

19— Jan.	1					500	00								

Reserve for Depreciation of Furniture and Fixtures

								19— Dec.	31					100	00

Depreciation of Furniture and Fixtures

19—						19—					
Dec.	31			100	00	Dec.	31	To Profit and Loss		100	00

Profit and Loss

19—											
Dec.	31	Depr. of Furn. and Fixtures		100	00						

Showing depreciation and depreciation reserve on the statements.—The account, Depreciation of Furniture and Fixtures, has been shown closed into Profit and Loss. The amount will appear on the Statement of Profit and Loss among the Operating Expenses.

The account, Reserve for Depreciation of Furniture and Fixtures, has been shown to be a suspended credit to the asset account, Furniture and Fixtures. On the Balance Sheet, the amount of the Reserve account should be shown as a deduction from the cost of the asset. This is illustrated as follows:

Furniture and Fixtures	$500	
Less—Reserve for Depreciation	100	$400

All fixed assets, and the depreciation reserves set up in connection with them, should be shown in this manner on the Balance Sheet. The Depreciation Reserve account serves to evaluate the asset to which it refers and is known as a *valuation account.*

Final disposition of the depreciation reserve account.—The amount of depreciation set up as a Reserve for Depreciation of any particular asset is an estimate. If the life of the asset and its final scrap value have been correctly estimated, the book value of the asset, when it is discarded, will be its scrap value.

To illustrate, assume that a delivery truck is purchased at a cost of $1200, that its estimated life is four years and its scrap value, $200. At the end of the four years, the asset account and its related valuation reserve account will appear as follows:

Delivery Truck

19— Jan.	1			1,200 00					

Reserve for Depreciation of Delivery Truck

					19— Dec.	31			250 00
					19— Dec.	31			250 00
					19— Dec.	31			250 00
					19— Dec.	31			250 00

The book value of the delivery truck is thus seen to be $200. If the old truck is now sold for $200 cash, the following entries should be made:

Cash	$200	
Delivery Truck		$200
For sale of delivery truck for cash.		

Reserve for Depreciation of Delivery Truck	$1,000	
Delivery Truck		$1,000
To transfer the reserve to the asset account.		

We have, however, set up an ideal situation in the foregoing illustration. The asset may be disposed of for more or less than its estimated scrap value. Thus it may be necessary, finally, to record a profit or a loss on the sale.

If the truck were sold for $250, the transfer of the $1000 from the Reserve account will not close the Delivery Truck account. The following entry is, therefore, necessary:

Delivery Truck	$50	
Profit on Sale of Truck		$50

If the truck were sold for $175, there would again be a balance in the Delivery Truck account after the reserve had been transferred. This would necessitate the following entry:

Loss on Sale of Truck	$25	
Delivery Truck		$25

Uncollectible accounts receivable.—It is common practice, in many lines of business, to sell goods on credit terms. This brings upon the books of the seller numerous customers' accounts as assets of the business. In spite of the care with which credit may be extended, losses are bound to occur in connection with the collection of amounts due from customers. Some customers may become bankrupt or suffer reverses which make it impossible for them to pay; others may prove to be dishonest. Lawsuits may be brought against delinquent customers for the collection of past-due accounts; but, unless the amount of an account is fairly large, it may be better, in the long run, to consider the claim a loss.

Estimating losses on accounts receivable.—Losses due to uncollectible accounts receivable may be left out of consideration until they materialize. This is not good accounting practice, for the reason that such losses would probably be charged against the income of an accounting period other than the one in which the sale was made.

For this reason, it is customary, at the end of each period, to estimate the losses likely to occur as the result of sales of goods on credit terms. The situation is similar to that discussed under depreciation of fixed assets. Past experience will serve to assist in making the estimate. This is usually expressed as a percentage of the total owed by customers, or it may be stated as a percentage of the sales made during the period.

The reserve for doubtful accounts.—The effect of estimating future losses on customers' accounts is an evaluation of the asset, Accounts Receivable. The estimated loss must, of course, be debited to an expense account. The credit cannot be made in the Accounts Receivable controlling account, since it would be impossible to credit any account, or accounts, in the subsidiary ledger at the same time. The credit is, therefore, "suspended" in the valuation account, Reserve for Doubtful Accounts.

To illustrate, assume that on December 31, 19—, the total amount owed by customers, as shown by the debit balance of the Accounts Receivable account, is $6,000. If it is estimated

that 2% of this amount will prove uncollectible, the following adjustment entry is made in the journal prior to closing the books:

Provision for Bad Debts	$120	
Reserve for Doubtful Accounts		$120
To provide for estimated losses on customers' accounts, 2% of $6,000.		

The estimated loss on accounts receivable is not usually considered an operating expense. It has to do with financial management and should be shown on the Statement of Profit and Loss as a Deduction from Income.

The valuation account, Reserve for Doubtful Accounts, should be shown on the Balance Sheet as a deduction from Accounts Receivable, in the following manner:

Accounts Receivable	$6,000	
Less—Reserve for Doubtful Accounts	120	$5,880

Writing off bad accounts.—As accounts of customers prove uncollectible, they should be written off the books. This is done by debiting Reserve for Doubtful Accounts and crediting the customer's account. This is frequently called "charging the account of the customer against the Reserve." What happens, in fact, is that a portion of the credit "suspended" in the Reserve is transferred to the account to which it belongs. This is illustrated by the following entry:

Reserve for Doubtful Accounts	$25	
F. B. Collins (Accounts Receivable)		$25
To close the account of F. B. Collins, which proved uncollectible.		

It may happen that the amount of the customer's account to be written off is greater than the balance of the Reserve for Doubtful Accounts. In that case, the difference should be debited to the account, Bad Debts. Thus, if the balance of the customer's account to be written off is $140 and the balance of the Reserve is $100, the following entry is made:

Reserve for Doubtful Accounts	$100	
Bad Debts	40	
F. B. Collins (Accounts Receivable)		$140
To write off the account of F. B. Collins, which was $40 in excess of the Reserve for Doubtful Accounts.		

Distinction between Bad Debts and Provision for Bad Debts.—It should be noted that a distinction is made between Bad Debts and Provision for Bad Debts. The latter account is debited for estimated losses; the former account, for actual losses for which no provision has been made.

Additions to the Reserve for Doubtful Accounts.—At the end of each accounting period, the amount of the Reserve for Doubtful Accounts should be carefully considered, and additions made to it. Normally, the amount will have been reduced by writing off some bad accounts. It may be found that the percentage should be increased or decreased in making estimates. In any case, the adjustment should be made periodically, before each closing of the books. The entry is the same as that already illustrated.

Recovery of bad debts.—When an account, previously written off as uncollectible, is paid fully or in part, the customer's account should be re-opened, either for the full amount or for the amount collected. The Reserve for Doubtful Accounts is, ordinarily, credited. The customer is then credited for the payment. This procedure shows that the customer has made an effort to re-establish his credit.

Thus, if the account of John Smith, $60, had been written off, and a payment of $40 is received from him, the following entries are made:

In the general journal.—

John Smith (Accounts Receivable)	$60	
Reserve for Doubtful Accounts		$60
To re-open the account of John Smith, previously written off.		

In the cash receipts journal.—

Cash	$40	
John Smith (Accounts Receivable)		$40
For payment on account.		

Contingent liabilities.—When a note or draft is discounted at a bank before maturity, the holder is required to endorse it. The endorser's contract involves his liability to pay the note or draft in case it is not paid at maturity. Thus there arises a *contingent liability.* The liability is not absolute at the time

of endorsing the paper, but it is contingent upon dishonor by the one who is primarily liable.

The Notes Receivable account has, ordinarily, been credited whenever notes or drafts have been discounted. It is better practice to credit Notes Receivable Discounted, thus showing the contingent liability on the books. When the note or draft has been paid by the maker or acceptor, the Notes Receivable Discounted account should be closed into the Notes Receivable account.

The procedure outlined above may be illustrated as follows:

May 28, 19—		
Cash	$597.00	
Interest Cost	3.00	
Notes Receivable Discounted		$600.00
Discounted at the Merchants Bank the 60-day note of Baker Bros., dated April 28, $600.		

When the note has been paid at maturity by Baker Bros. the contingent liability no longer exists. The following entry should then be made:

June 29, 19—		
Notes Receivable Discounted	$600	
Notes Receivable		$600
To cancel the contingent liability in connection with the note of Baker Bros., dated April 28 and discounted on May 28 at the Merchants Bank.		

The Notes Receivable Discounted account is, in reality, the credit side of the Notes Receivable account and resembles other valuation accounts. On the Balance Sheet, it should be shown subtracted from the Notes Receivable account, as follows:

Notes Receivable	$2,000	
Less—Notes Receivable Discounted	600	$1,400

Final consideration of valuation reserves.—The word "reserve," in connection with valuation reserves, sometimes leads to confusion in the mind of the student of accounting. The word seems to imply that something has been laid aside for future use. Nothing, in fact, has been reserved.

In all cases, a valuation reserve account is to be considered as a portion of, or a deduction from, another account. On the

Balance Sheet, the valuation reserve should always be shown subtracted from the account to which it is related.

Review Questions

1. What is meant by a " fixed asset " ?

2. How do fixed assets differ from expense assets?

3. What is meant by " depreciation of fixed assets " ? Name common causes of depreciation.

4. How is depreciation ordinarily calculated? What name is given to that method?

5. How is reduction in value of expense assets calculated?

6. What is the nature of the account to which you would charge the consumption of an expense asset?

7. What is the nature of the account to which you would charge depreciation of a fixed asset?

8. What is meant by " scrap value " ?

9. What is meant by a " valuation account " ?

10. Give the exact title of the account that you would use to evaluate the asset, office fixtures; delivery equipment; buildings; machinery and tools.

11. Give the title of the account to which you would charge depreciation of each of the assets in question 10.

12. In what section of the Profit and Loss Statement would you show depreciation on fixed assets?

13. Describe how the valuation reserve accounts should be handled on the Balance Sheet.

14. What is the name of the valuation account used in connection with accounts receivable? What is its purpose?

15. Name common causes of losses on customers' accounts.

16. How are future losses on customers' accounts estimated?

17. Why should losses on accounts receivable be estimated and taken into account at the end of each accounting period, rather than as they materialize?

18. To what account would you charge estimated losses on accounts receivable?

19. To what account would you charge losses on customers' accounts, if no provision had been made for such losses?

20. In what section of the Profit and Loss Statement would you show Provision for Bad Debts? Bad Debts?

21. How should Reserve for Doubtful Accounts be handled on the Balance Sheet?

22. What is meant by " writing off " a customer's account? Explain the procedure.

Exercises

1. On the general ledger of L. C. Eaton at December 31, 19—, appear the following accounts of fixed assets: Office Equipment, $500; Motor Trucks, $1600. If the books are to be closed on December 31, what adjusting entries are to be made for depreciation, the rate being 10% for office equipment and 12½% for motor trucks?

2. On January 2, 19—, a delivery truck was purchased at a cost of $1450. The owner estimated that he could keep it in active service for four years and that he could then dispose of it for $250.

(a) If the books are closed at the end of each six months' period, what adjusting entry should be made for depreciation, prior to each closing?

(b) Show the asset account and the valuation account as they would appear after the books had been closed at the end of four years.

3. Referring to question 2, if the truck were sold at the end of the fourth year for $250 cash, show all entries (journal form).

4. Show what entries (journal form) would be made following the sale of the truck (question 2) for (a) $190; (b) $300. (The truck has been used four years.)

5. The following accounts appeared on the ledger of A. F. Bale, prior to closing at June 30, 19—:

Building	$18,000.00	
Reserve for Depreciation of Building		$1,755.00
Store Fixtures	1,500.00	
Reserve for Depreciation of Store Fixtures		285.00

Depreciation charges are to be calculated as follows:

On Building, 5% of *book value*
On Store Fixtures, 10% of *book value.*

Show the adjusting entries to be made at June 30.

6. On January 2, 19—, five typewriters were purchased at a cost of $110 each and charged to Office Equipment. The typewriters were estimated to have a useful life of three years and a " turn-in " value of $20 each at the end of that time.

Depreciation entries were made at the end of each year (books closed annually). At the end of three years the machines were exchanged for new ones. The typewriter company allowed $30 for each old machine on the purchase of five new typewriters at $110. The balance was paid in cash.

Show:

(a) The entry made each year for depreciation.
(b) Entries to be made at the time of exchange (journal form).

7. A motor truck was purchased for $1400 and put into service on July 1, 19—. The estimated useful life was five years and its " turn-in " value, $200. The owner closed his books semi-annually. On June 28, two years later, the truck was almost completely wrecked in an accident. The owner collected $600 from an insurance company and sold the truck to a junk dealer for $50.

Show:

(a) Depreciation entry to be made for the fourth accounting period since the purchase of the truck.
(b) Other necessary entries (journal form).

8. On June 30, 19—, the Accounts Receivable account in the ledger of R. W. Keys shows a total of $16,750 owed by customers. The bookkeeper is instructed to provide for probable losses of 2%, before closing the books:

(a) Show the adjustment entry.
(b) Show the entry to write off the account of J. C. Wyle, a customer, on November 10 following. The amount was $87.50.

9. Assume that, on May 5, a check for $50 is received from J. C. Wyle, whose account had been written off on November 10 previous. (See question 8.) Mr. Wyle states that he expects to pay the remainder later. Show the necessary entries.

10. The net sales of the business of H. P. Swanton for the six months ended December 31, 19—, were $19,840. What entry should be made to add to the Reserve for Doubtful Accounts an amount equal to 3% of the net sales?

11. Assume that the balance of the Reserve for Doubtful Accounts was $105.11 before making the entry called for in question 10. What amount would you show on the Statement of Profit and Loss for Provision for Bad Debts? In what section?

What amount would you show for Reserve for Doubtful Accounts on the Balance Sheet? How should it be shown?

12. The account of J. R. Camp, a customer of Brown Brothers, stands on the latter's books at $148.30. Mr. Camp has failed in business, although his account has not been written off. A check is received on May 5, 19—, from the trustee in bankruptcy, for 50% of the claim, as final settlement.

Assuming that a reserve for doubtful accounts had been kept, show entries on the books of Brown Brothers on May 5.

13. You have on your books the account of C. R. Holmes, a customer, for $239.50. The account is considered worthless, and it is decided to write it off. The balance in the Reserve for Doubtful Accounts is $114.75. Show the entries to be made.

14. On June 30, 19—, the total owed by customers of D. W. North, as shown by the Accounts Receivable account, was $26,930. The balance of the Reserve for Doubtful Accounts was $105.90. Mr. North instructs his bookkeeper to add to the reserve account an amount sufficient to make its balance equal to 2% of claims against customers. Show the entry.

What amount should appear in the Statement of Profit and Loss for Provision for Bad Debts? On the Balance Sheet for Reserve for Doubtful Accounts?

15. James Anderson holds a 30-day note for $400 signed by W. A. Dorsey, a customer. Mr. Dorsey's account in the sales ledger shows that he owes an additional amount, $260. Both claims are long past due, since Dorsey is bankrupt.

If final settlement is received on October 19, 19—, from the trustee in bankruptcy, for 30% of the total claim, what entries

should be made on Anderson's books, assuming that a Reserve for Doubtful Accounts has been maintained?

16. On July 15 you discount at the Exchange Bank the 60-day note of E. F. Ward, dated June 15, for $450. Show the entries to be made upon your books in order to express the contingent liability involved (journal form).

17. Assume that on August 16, two days after the maturity of the note discounted in question 16, you have heard nothing from your bank. What entry would you make in your journal?

18. What entries would you make if, on August 15, you had been required to pay the note of E. F. Ward which, upon proper presentation by the Exchange Bank on August 14, had been dishonored by him? (See question 16.)

Chapter IX

FINANCIAL STATEMENTS AND CLOSING ENTRIES

The accounting period.—In order to obtain with accuracy the profits of a business enterprise, the business would have to be terminated, the assets sold, the debts paid, and the remaining cash divided among the owners. Any excess over the amounts invested in the business, together with any amounts withdrawn or distributed during the life of the enterprise, would constitute profits. But, since the termination of a business is likely to occur only after a period of years, it is customary to establish accounting periods of one year, six months, one month, or some other length of time, and to summarize and analyze the results of that period. Thus the progress of the business may be judged.

Financial statements.—To judge the results of business operations for any particular period, it is necessary to assemble financial facts for study and analysis. The Balance Sheet sets forth the financial condition of the business at a given date by showing the assets, the liabilities, and the proprietorship of the owner or owners. By analysis, the Statement of Profit and Loss shows why and how changes in net capital have occurred, due to business operations, in the accounting period under consideration.

The nature of the information that appears on financial statements will vary, depending upon the size and kind of business involved. Thus, statements prepared for a large manufacturing concern will, naturally, contain items not found on statements prepared for a retail business or for a bank. General principles, however, govern the preparation of these statements, regardless of the size or the nature of the business under consideration.

It is the purpose of the present chapter to consider the preparation of financial statements in more advanced forms

than those previously shown. The adjusting and closing entries necessary to complete the records at the end of an accounting period will also be considered.

Basis for the preparation of statements.—Theoretically, all records are complete, for the accounting period under consideration, before the Balance Sheet and the Statement of Profit and Loss are prepared. It is customary, however, to prepare the statements before taking the final steps that are commonly referred to as "closing the ledger." This procedure guards against errors in the final work on the books.

Notwithstanding the fact that the financial statements may be prepared before all of the work on the books has been finished at the end of an accounting period, the preparation of the Balance Sheet and the Statement of Profit and Loss may logically be considered as the final step in the bookkeeping cycle for the period just ended. It is in these statements, from the standpoint of information, that the work of the bookkeeper comes to a focus. The various facts bearing upon financial condition and changes in financial condition are brought together for the purpose of study and analysis by those interested in the affairs of the business enterprise in question. The bookkeeper, naturally, looks to his ledger accounts for the financial facts to be assembled on the statements. Some few facts, however, regarding inventories, accruals, deferred charges, depreciation, and so forth, are not on the books. These must be taken into consideration. Sometimes the bookkeeper makes all the adjusting entries necessary to bring the records for the accounting period up to date, before preparing the final Trial Balance on which the preparation of the financial statements is to be based. A Trial Balance taken after all adjusting entries have been made and posted to the ledger is known as an *adjusted* Trial Balance.

The Trial Balance and any additional facts not yet recorded are the basis for the preparation of the statements. The ledger is then "closed," or completed for the period, with the Statement of Profit and Loss as a guide. To illustrate this procedure, the following Trial Balance and additional facts will be considered:

FORBES AND FERRIS
Trial Balance, December 31, 19—

Cash	8,670 00	
Notes Receivable	1,900 00	
Notes Receivable Discounted		500 00
Accounts Receivable	18,750 00	
Reserve for Doubtful Account		114 00
Merchandise Inventory, June 30, 19—	8,200 00	
Land and Building	20,000 00	
Reserve for Depreciation of Building		900 00
Store Fixtures	400 00	
Reserve for Depreciation of Store Fixtures		80 00
Delivery Equipment	1,600 00	
Reserve for Depreciation of Delivery Equipment		320 00
J. C. Forbes, Capital		15,150 00
J. C. Forbes, Personal	150 00	
R. W. Ferris, Capital		16,267 00
R. W. Ferris, Personal	200 00	
Purchases	24,980 00	
Purchase Returns and Allowances		285 00
Sales		34,150 00
Sales Returns and Allowances	350 00	
Freight and Cartage In	390 00	
General Expense	116 00	
Office Supplies	50 00	
Rent	1,200 00	
Insurance Prepaid	220 00	
Salaries	1,800 00	
Mortgage Payable		5,000 00
Notes Payable		2,300 00
Accounts Payable		14,130 00
Interest Earned		40 00
Purchase Discounts		465 00
Interest Cost	55 00	
Sales Discounts	670 00	
	89,701 00	89,701 00

Additional information at December 31:

Merchandise Inventory $8,000.00

Depreciation:
- Building, 2% on a cost of $15,000
- Store Fixtures, 5% of cost
- Delivery Equipment, 10% of cost

The reserve for doubtful accounts is to be increased, to make it equal to 2% of accounts receivable.

Accruals:

Interest Accrued on Notes Receivable	$16.00
Interest Accrued on Notes Payable	12.00
Interest Accrued on Mortgage Payable	60.00
Salaries unpaid	75.00
Freight on Purchases, unpaid	37.50

Deferred charges to Expense:

Insurance unexpired	$120.00
Office Supplies on hand	14.00
Interest Paid in Advance	5.50

Profits and losses are to be shared equally.

The adjusting entries.—It is a good working procedure to prepare the adjusting entries before attempting to set up the statements. This is especially helpful when numerous items of information are to be taken into consideration along with the trial balance. In problem work, they should be prepared on a sheet of journal paper and checked off as they are used in conjunction with the trial balance accounts to which they are related. If made in connection with the actual work of closing a set of books, they are to appear in the general journal, following the summary entry.

The various entries for accruals, deferred charges to expense, and valuation reserve accounts were considered in detail in Chapters VI, VII, and VIII. The following are the adjusting entries to be made on the books of Forbes and Ferris at December 31:

Adjusting Entries, December 31, 19—

Purchases	8,200	00		
Merchandise Inventory			8,200	00
To add the inventory at June 30 with the purchases.				
—31—				
Merchandise Inventory	8,000	00		
Purchases			8,000	00
To deduct the inventory at December 31.				
—31—				
Depreciation of Building	300	00		
Reserve for Depreciation of Building			300	00
To record estimated depreciation, 2% of cost, $15,000.				
—31—				
Depreciation of Store Fixtures	20	00		
Reserve for Depreciation of Store Fixtures			20	00
For depreciation at 5% of cost, $400.				
—31—				
Depreciation of Delivery Equipment	160	00		
Reserve for Depreciation for Delivery Equipment			160	00
For depreciation at 10% of cost, $1,600.				

December 31, 19—

Provision for Bad Debts	26100		
Reserve for Doubtful Accounts		261	00
To increase the reserve account to 2% of accounts receivable.			
2% of $18,750 = $375 − 114 = $261.			
—31—			
Accrued Interest Receivable	1600		
Interest Earned		16	00
For interest accrued on notes receivable.			
—31—			
Interest Cost	7200		
Accrued Interest Payable		72	00
For interest accrued on notes payable $12, and on mortgage payable, $60.			
—31—			
Salaries	7500		
Salaries Accrued		75	00
For salaries unpaid to date.			
—31—			
Freight and Cartage, Inward	3750		
Sundry Liabilities		37	50
For freight bill unpaid on goods purchased.			
—31—			
Insurance Expense	10000		
Insurance Prepaid		100	00
To record expired insurance for the period June 30–December 31.			
—31—			
Office Supplies Used	3600		
Office Supplies		36	00
To record consumption of office supplies.			
—31—			
Interest Prepaid	550		
Interest Cost		5	50
To remove from the Interest Cost account the amount of prepaid interest.			

The classified Balance Sheet.—The Balance Sheet provides a classification of items under three main captions: Assets, Liabilities, and Proprietorship. When the items appearing on the Balance Sheet are comparatively few in number, this classification may be sufficient. If the Balance Sheet is to contain numerous items, a further classification of assets and liabilities will make the statement more valuable.

Current assets.—Current assets are those which are cash, or which may be readily converted into cash. They are, in fact, those assets of the business which are being converted

into cash in the regular course of business operations. Thus, in addition to cash, the common current assets are notes receivable, accounts receivable, accrued interest receivable, and the merchandise inventory.

The ability to pay liabilities as they mature is dependent upon the extent of current assets and the regularity with which they are being converted into funds with which to pay debts. Thus, it will be seen that the owner of a business will be interested in the extent of his current assets and the relation which the total bears to current liabilities.

Current assets are sometimes called " quick assets," " liquid assets," or " floating assets."

Fixed assets.—*Fixed assets* are those assets of a permanent nature intended for long use within the business. Examples are seen in the case of land, buildings, machinery, furniture and fixtures, and delivery equipment. All such assets, except land, are subject to decline in value due to depreciation. This decrease in value, however, is slow. Fixed assets are, therefore, gradually consumed by the business by repeated use.

The manner of showing fixed assets on the Balance Sheet was discussed in Chapter VIII, in connection with the study of valuation accounts.

Deferred Charges to Expense.—Some temporary assets, referred to as *expense assets,* may remain unused at the end of an accounting period. They are to be listed on the Balance Sheet under the heading " Deferred Charges to Expense." Common examples are insurance prepaid, office supplies inventory, fuel inventory, and prepaid interest.

The treatment of Deferred Charges to Expense in the ledger accounts was explained in detail in Chapter VII.

Current liabilities.—Those liabilities which have to be paid within a comparatively short time are called *current liabilities.* They include notes payable, accounts payable, accrued interest payable, salaries and wages unpaid, and the like.

The analysis of financial statements will be considered in a later chapter. It should be noted at this point, however, that the relation between total current assets and total current

liabilities is of the greatest significance. The excess of current assets over current liabilities is the working capital of the business. It is usually considered that a working capital ratio of less than 2 to 1 indicates unsound financial condition.

Fixed liabilities.—Fixed liabilities are those debts which are to run for a long time before they become due and payable. Examples are long-term notes, bonds and mortgages payable.

Deferred credits to income.—The nature of deferred credits to income, and the proper treatment on the ledger, were discussed in Chapter VII. They represent income which has been received but not yet earned. For example, rent received from a tenant for a period in advance of the date on which the Balance Sheet is prepared, is a liability and should be shown as such on that statement. Another example is interest income which has not been earned, although received.

Preparing the Balance Sheet.—In preparing the Balance Sheet, the items are selected from the Trial Balance and listed under the proper classifications. Due attention must be given to all adjusting entries which have been made and which will modify the account balances in the Trial Balance, or which may add new accounts.

It should be noted here that, if the adjusting entries were posted to the ledger and a new Trial Balance taken, such a Trial Balance would be known as an "adjusted" Trial Balance.

Some attention should be given to the order in which the different items are listed on the Balance Sheet. The order may vary, depending upon the kind of business and the purpose for which the statement is prepared. In the standard form of the Balance Sheet, the usual order in the asset section is: current assets, fixed assets, deferred charges to expense; in the liability section: current liabilities, fixed liabilities, deferred credits to income. The fixed assets may be placed first, or last, in the asset group. In that case, the fixed liabilities should appear in a corresponding position among the liabilities.

The following is the Balance Sheet prepared from the Trial Balance of Forbes and Ferris, and the additional information given (see page 122):

FORBES AND FERRIS
Balance Sheet, December 31, 19—

Assets			
Current Assets			
Cash		$8,670 00	
Notes Receivable	$1,900.00		
Less—Notes Rec. Disctd	500.00	1,400 00	
Accounts Receivable	18,750.00		
Less—Res. for Bad Debts	375.00	18,375 00	
Merchandise Inventory		8,000 00	
Accrued Interest Receivable		16 00	
Total Current Assets			$36,461 00
Fixed Assets			
Land and Building	20,000.00		
Less—Res. for Depr. of Bldg.	1,200.00	18,800 00	
Store Fixtures	400.00		
Less—Res. for Depr	100.00	300 00	
Delivery Equipment	1,600.00		
Less—Res. for Depr	480.00	1,120 00	
Total Fixed Assets			20 220 00
Deferred Charges to Expense			
Insurance Prepaid		120 00	
Office Supplies Inventory		14 00	
Interest Paid in Advance		5 50	
Total Deferred Charges			139 50
Total Assets			$56,820 50
Liabilities			
Current Liabilities			
Notes Payable		$2,300 00	
Accounts Payable		14,130 00	
Accrued Interest Payable		72 00	
Salaries Accrued		75 00	
Sundry Liabilities		37 50	
Total Current liabilities			$16,614 50
Fixed Liabilities			
Mortgage Payable			5,000 00
Total Liabilities			21,614 50
Capital			
J. C. Forbes, 6/30/19—		15,150 00	
Add—½ Net Profit	$2,069.50		
Less—drawings	150.00	1,919 50	
Net Worth, December 31, 19—			17,069 50
R. W. Ferris, 6/30/19—		16,267 00	
Add—½ Net Profit	2,069.50		
Less—drawings	200.00	1,869 50	
Net Worth, December 31, 19—			18,136 50
Total Liabilities and Capital			$56,820 50

Finding the net profit on the Balance Sheet.—In order to show the capital changes on the Balance Sheet, the net profit for the accounting period just ended must be found. The procedure is illustrated as follows:

Assets, December 31, 19—		$56,820.50
Liabilities, December 31, 19—		21,614.50
Capital, December 31, 19—		35,206.00
Capital, June 30, 19—:		
J. C. Forbes	$15,150.00	
R. W. Ferris	16,267.00	31,417.00
Increase in Capital		3,789.00
Add—drawings:		
J. C. Forbes	$150.00	
R. W. Ferris	200.00	350.00
Net Profit		$4,139.00

The Statement of Profit and Loss.—The Statement of Profit and Loss analyzes changes in capital for the accounting period. In the case of this statement, as was true of the Balance Sheet, it is important that items of information be assembled in a good arrangement. The statement is to present a picture of business operations for the period under consideration. The Trading section sets forth the buying and selling activities of the business and shows the result as Gross Trading Profit. From this amount are to be deducted the Operating Expenses of the business. These are the buying and selling expenses, and the general and administrative expenses. The result, after deducting the Operating Expenses, is the Operating Profit. The two sections which follow have to do with the financial management of the business. The addition of Other Income gives the Total Income for the period, while the subtraction of Deductions From Income gives the Net Profit.

There is a sense in which the Statement of Profit and Loss may be considered as a schedule supporting the item "Net Profit" on the Balance Sheet. Each, however, is a major statement.

The following is the Statement of Profit and Loss prepared for Forbes and Ferris for the six months' period ended December 31, 19—:

FORBES AND FERRIS
Statement of Profit and Loss for the Six Months Ended December 31, 19—

Gross Sales	$34,150 00	
Less—Returns and Allowances	350 00	
Net Sales		$33,800 00
Cost of Goods Sold:		
Merchandise Inventory, 6/30/19—	8,200 00	
Purchases $24,980.00		
Less—Returns and Allowances 285.00	24,695 00	
Freight and Cartage Inward	427 50	
Total merchandise cost	33,322 50	
Less—Merchandise Inventory, 12/31/19—	8,000 00	
Cost of Goods Sold		25,322 50
Gross Trading Profit		8,477 50
Operating Expenses:		
General Expense	116 00	
Office Supplies Used	36 00	
Rent	1,200 00	
Insurance Expense	100 00	
Salaries	1,875 00	
Depreciation of Building	300 00	
Depreciation of Store Fixtures	20 00	
Depreciation of Delivery Equipment	160 00	
Total Operating Expense		3,807 00
Operating Profit		4,670 50
Other Income:		
Purchase Discounts	465 00	
Interest Earned	56 00	
Total Other Income		521 00
Total Income		5,191 50
Deductions from Income:		
Sales Discount	670 00	
Interest Cost	121 50	
Provision for Bad Debts	261 00	
Total Deductions from Income		1,052 50
Net Profit		4,139 00
Distribution:		
J. C. Forbes, ½ Net Profit	2,069 50	
R. W. Ferris, ½ Net Profit	2,069 50	$4,139 00

Analysis of operating expenses.—When the items appearing in the Operating Expenses section of the Statement of Profit and Loss are numerous enough to warrant it, this section

may be shown with the sub-headings: Administrative Expenses and Selling Expenses.

This may be illustrated as follows:

Operating Expenses:			
Administrative Expenses:			
Rent	$400.00		
Office Salaries	650.00		
General Expense	74.00		
Insurance Expense	50.00		
Depr. of Office Fixtures	44.00	$1,218.00	
Selling Expenses:			
Salaries of Salesmen	360.00		
Traveling Expenses	290.00		
Delivery Expense	188.00		
Depr. of Delivery Equipment	200.00	1,038.00	
Total Operating Expenses			$2,256.00

Closing entries.—Following the preparation of the financial statements, the final, or closing, entries are to be made. These complete the records for the accounting period; hence, their name.

The Statement of Profit and Loss should be used as a guide in preparing the closing entries, since every entry yet to be made is clearly indicated. A careful explanation should follow each closing entry in the general journal.

The following are the closing entries necessary to complete the books of Forbes and Ferris at December 31, 19—:

Closing Entries, December 31, 19—

	Sales	350 00		
	Sales Returns and Allowances			350 00
	To deduct returns and allowances from the sales.			
	—31—			
	Purchase Returns and Allowances	285 00		
	Purchases			285 00
	To deduct returns and allowances from purchases.			
	—31—			
	Purchases	427 50		
	Freight and Cartage Inward			427 50
	To add freight and cartage to purchases.			
	—31—			
	Sales	25,322 50		
	Purchases			25,322 50
	To record the cost of goods sold.			

December 31, 19—

Sales	8,477	50		
Profit and Loss			8,477	50
To transfer gross trading profit to Profit and Loss.				
—31—				
Profit and Loss	3,807	00		
General Expense			116	00
Office Supplies Used			36	00
Rent			1,200	00
Insurance Expense			100	00
Salaries			1,875	00
Depreciation of Building			300	00
Depreciation of Store Fixtures			20	00
Depreciation of Delivery Equipment			160	00
To transfer above account balances to Profit and Loss.				
—31—				
Purchase Discounts	465	00		
Interest Earned	56	00		
Profit and Loss			521	00
To transfer above account balances to Profit and Loss.				
—31—				
Profit and Loss	1,052	50		
Sales Discounts			670	00
Interest Cost			121	50
Provision for Bad Debts			261	00
To transfer above account balances to Profit and Loss.				
—31—				
Profit and Loss	4,139	00		
J. C. Forbes, Personal			2,069	50
R. W. Ferris, Personal			2,069	50
To distribute the net profit.				
—31—				
J. C. Forbes, Personal	1,919	50		
R. W. Ferris, Personal	1,869	50		
J. C. Forbes, Capital			1,919	50
R. W. Ferris, Capital			1,869	50
To transfer the balances of the partners' personal accounts to their investment accounts.				

Post-closing entries.—After the closing entries have been made and the ledger accounts ruled off or balanced, certain of the adjusting entries should be reversed. The entries to be reversed are the accrual entries and certain entries made in connection with deferred charges to expense and deferred credits to income.

The post-closing entries were fully discussed in Chapters VI and VII. They are made to transfer to income and expense accounts those items of income and expense applicable to the next accounting period. The following are the post-closing entries to be made on the books of Forbes and Ferris:

Post-closing Entries, January 1, 19—

Interest Earned		16 00		
Accrued Interest Payable		72 00		
Salaries Accrued		75 00		
Sundry Liabilities		37 50		
Interest Cost		5 50		
Accrued Interest Receivable			16	00
Interest Cost			72	00
Salaries			75	00
Freight and Cartage Inward			37	50
Interest Prepaid			5	50
To reverse certain adjusting entries made prior to closing the books at December 31, 19—.				

The post-closing Trial Balance.—When the books have been closed, a Trial Balance is frequently taken to make sure that the ledger is in balance before continuing with the entries for the following period. This is known as a post-closing Trial Balance.

The same result may be obtained by checking the balances of all the accounts in the general ledger with the Balance Sheet.

Review Questions

1. What is meant by an " accounting period " ?

2. What is the purpose of financial statements?

3. What is the basis for the preparation of the financial statements?

4. Why should adjusting entries be made before setting up the statements?

5. What is meant by a " classified Balance Sheet " ?

6. Name the headings commonly used in classifying assets and liabilities.

7. State, in the form of an equation, how you would determine net profit, in preparing the capital section of the Balance Sheet.

8. Define: current assets; fixed assets; deferred charges to expense; current liabilities; fixed liabilities; deferred credits to income.

9. What is meant by " closing entries " ?

10. How does the Statement of Profit and Loss help in making the closing entries?

11. What are post-closing entries? What is their purpose?

12. What is meant by a " post-closing Trial Balance " ? How may the Balance Sheet be made to serve the same purpose?

Exercises

1. On September 30, 19—, the general ledger of F. R. Corson showed the following accounts and balances:

Cash	$2,575.00	
Accounts Receivable	1,784.69	
Notes Receivable	825.00	
Merchandise Inventory, July 1, 19—	4,045.80	
Office Equipment	690.00	
Purchases	6,517.43	
Freight Inward	328.00	
Purchase Discount		$386.19
Sales		7,664.18
Sales Discounts	483.74	
Purchase Returns		120.00
Sales Returns	211.00	
Postage	43.25	
General Expense	363.98	
Office Supplies	80.00	
Rent	625.00	
Insurance	100.00	
Salaries	375.00	
F. R. Corson, Capital		9,129.00
F. R. Corson, Personal	250.00	
Notes Payable		500.00
Accounts Payable		1,500.00
Interest Earned		7.52
Interest Cost	9.00	
	$19,306.89	$19,306.89

Additional information at September 30:

Merchandise Inventory	$4,150.00
Office Supplies on hand	46.00
Insurance Prepaid	75.00
Accrued Interest on Notes Receivable	4.30
Accrued Interest on Notes Payable	3.10
Salaries unpaid	45.00

A depreciation reserve is to be set up equal to 4% of office equipment.

Provision is to be made for estimated future losses on bad debts equal to 5% of accounts receivable.

Prepare:

(a) Adjusting entries.
(b) Balance Sheet at September 30.
(c) Statement of Profit and Loss for the three months ended September 30.
(d) Closing entries.
(e) Post-closing entries.

2. The following Trial Balance was taken from the general ledger of E. A. Barton at June 30, 19—:

Cash	$ 6,310.80	
Notes Receivable	1,700.00	
Accounts Receivable	12,538.20	
Merchandise Inventory, Jan. 1, 19—	9,560.00	
Furniture and Fixtures	510.00	
Motor Trucks	1,800.00	
Office Supplies	52.50	
Insurance Prepaid	150.00	
Notes Payable		$ 1,150.00
Accounts Payable		10,673.50
E. A. Barton, Capital		14,532.00
E. A. Barton, Personal	160.00	
Purchases	19,984.75	
Purchase Returns		266.50
Freight and Cartage In	310.00	
Sales		28,792.60
Sales Returns	283.25	
Rent Expense	900.00	
General Expense	115.00	
Salaries	845.00	
Advertising	110.00	
Delivery Expense	240.00	
Interest Cost	17.60	
Interest Earned		21.50
Purchase Discounts		1,462.90
Sales Discounts	1,311.90	
	$56,899.00	$56,899.00

Additional information at June 30:

Merchandise Inventory	$9,120.00
Office Supplies on hand	16.50
Insurance Prepaid	100.00
Accrued Interest on Notes Receivable	12.50
Accrued Interest on Notes Payable	14.00
Salaries unpaid	70.00
Depreciation of Furniture and Fixtures, 5%	
Depreciation of Motor Trucks, 10%	

Provide for losses due to bad debts equal to 2% of accounts receivable.

Prepare:

(a) Adjusting entries.
(b) Balance Sheet at June 30.
(c) Statement of Profit and Loss for the six months.
(d) Closing entries.
(e) Post-closing entries.

3. The following accounts and balances appeared on the general ledger of H. P. Fay at December 31, 19—:

Cash, $2,859.20; Notes Receivable, $650; Accounts Receivable, $1,260.50; Merchandise Inventory, July 1, $3,625; Land and Building, $8,000; Store Fixtures, $220; Delivery Equipment, $750; Notes Payable, $960.50; Accounts Payable, $1,290; H. P. Fay, Capital, $15,608.60; H. P. Fay, Personal (debit), $250; Sales, $6,350.50; Sales Returns, $215.50; Purchases, $5,475.40; Purchase Returns, $275; Freight Inward, $187.50; Salaries, $580; General Expense, $65; Insurance Prepaid, $100; Office Supplies, $47.50; Delivery Expense, $112.75; Interest Earned, $9.50; Interest Cost, $7.60; Sales Discount, $364.10; Purchase Discount, $279.20; Cash Short and Over (debit), $3.25.

Additional information at December 31:

Merchandise Inventory	$2,510.50
Insurance Prepaid	50.00
Office Supplies on hand	15.00
Accrued Interest on Notes Receivable	4.70
Accrued Interest on Notes Payable	5.10
Freight Inward unpaid	21.80
Salaries unpaid	65.00

Provide for depreciation as follows: building, 5% on a cost of $6,000; store fixtures, 10%; delivery equipment, 15%. Provide for estimated losses due to bad debts equal to 4% of accounts receivable.

Prepare:

(a) A Trial Balance.
(b) Adjusting entries.
(c) Balance Sheet at December 31.
(d) Statement of Profit and Loss for the six months.

4. From the following Trial Balance and the additional facts given, prepare a Statement of Profit and Loss for King

and Harper for the year ended December 31, 19—, and a Balance Sheet as of December 31:

H. King, Capital		$20,000
G. Harper, Capital		20,000
H. King, Personal	$ 500	
G. Harper, Personal	600	
Cash	8,464	
Merchandise Inventory, Jan. 1, 19—	17,900	
Purchases	65,000	
Purchases Returned		950
Discount on Purchases		375
Sales		97,100
Sales Returned	1,200	
Discount on Sales	400	
Freight and Cartage Inward	1,600	
General Expense	4,696	
Insurance	150	
Interest Earned		85
Interest Cost	100	
Rent	3,000	
Salaries	7,000	
Selling Expense	12,000	
Furniture and Fixtures	2,000	
Office Supplies	700	
Delivery Equipment	2,500	
Notes Receivable	6,000	
Accounts Receivable	25,500	
Notes Payable		5,000
Accounts Payable		15,800
	$159,310	$159,310

Inventories, Dec. 31, 19—:

Merchandise	$18,500
Interest Accrued on Notes Payable	40
Interest Accrued on Notes Receivable	90
Prepaid Insurance	100
Office Supplies not used	120

Furniture and fixtures have depreciated 10% on book value.
Depreciation on delivery equipment is 20% of book value.

Chapter X

THE WORKING SHEET

Purpose of the Working Sheet.—The Working Sheet, or Work Sheet, is a preliminary solution of the Profit and Loss Statement and the Balance Sheet. Its purpose is to provide an analysis of the Trial Balance and the additional facts to be taken into consideration in the preparation of the financial statements.

The Working Sheet should be used when the work of preparing the statements must take into account so many items that the task becomes considerably involved. When the Trial Balance is long, and there are many adjusting entries to be made for facts not already recorded, great care must be exercised to prevent the omission of some items which should appear on the financial statements. The Working Sheet safeguards the accuracy of this important work.

The Working Sheet is often prepared when there is no intention of closing the books, nor preparing a formal Balance and a Statement of Profit and Loss. Thus, it may be prepared each month. Since it shows the net profit or loss, it serves to indicate the progress of the business.

Forms of the Working Sheet.—The Working Sheet may be made in different forms. In all essential respects, however, all these forms are alike. The form may provide six, eight, ten, or twelve columns, depending on the degree of analysis desired. It may be arranged in single or in double-page form. The double-page Working Sheet is illustrated in this chapter.

Steps in preparing the Working Sheet.—The preparation of the Working Sheet is, in reality, a problem in arithmetic. The problem is afforded by the Trial Balance and those additional facts which must be taken into account. In other words, the Trial Balance and the adjusting entries to be made are the basis for the work.

FERRIS
Working Sheet,

	Accounts	Trial Balance Dr.	Adjustments Dr.	Adjustments Cr.	Profit & Loss Statement	Balance Sheet
1	Cash	$8,670 00				$8,670 00
2	Notes Receivable	1,900 00				1,900 00
3	Accounts Receivable	18,750 00				18,750 00
4	Merchandise Inventory	8,200 00		8,200 00		
5	Land and Building	20,000 00				20,000 00
6	Store Fixtures	400 00				400 00
7	Delivery Equipment	1,600 00				1,600 00
8	Purchases	24,980 00	8,200 00	8,000 00	25,180 00	
9	Sales Returns & Allowances	350 00			350 00	
10	Freight & Cartage In	390 00	37 50		427 50	
11	General Expense	116 00			116 00	
12	Office Supplies	50 00		36 00		14 00
13	Rent	1,200 00			1,200 00	
14	Insurance Prepaid	220 00		100 00		120 00
15	Salaries	1,800 00	75 00		1,875 00	
16	J. C. Forbes, Personal	150 00				150 00
17	R. W. Ferris, Personal	200 00				200 00
18	Interest Cost	55 00	72 00	5 50	121 50	
19	Sales Discounts	670 00			670 00	
20		$89,701 00				
21	New Accounts					
22	Merchandise Inventory		8,000 00			8,000 00
23	Depreciation of Building		300 00		300 00	
24	Depreciation, Store Fixtures		20 00		20 00	
25	Depreciation, Delivery Equip.		160 00		160 00	
26	Provision for Bad Debts		261 00		261 00	
27	Accrued Interest Receivable		16 00			16 00
28	Insurance Expense		100 00		100 00	
29	Office Supplies Used		36 00		36 00	
30	Interest Prepaid		5 50			5 50
31	Profit and Loss		4,139 00		4,139 00	
32	Adjustments forward		21,422 00	16,341 50	34,956 00	59,825 50

The task of preparing a Working Sheet will be considerably simplified if it is divided into a number of distinct steps, as follows:

1. List the Trial Balance.
2. Prepare the adjusting entries.
3. Post the adjusting entries to the adjustment columns, adding any new accounts that are necessary.
4. Make all extensions to the Profit and Loss Statement and Balance Sheet columns.
5. Pencil-foot the Profit and Loss columns and determine the net profit or loss.
6. Journalize, post, and extend the net profit, or net loss.
7. Foot and prove all columns, remembering to forward the footings of the adjustment columns.

& FORBES
December 31, 19—

	Accounts	Trial Balance Cr.	Adjustments Dr.	Adjustments Cr.	Profit & Loss Statement	Balance Sheet
1	Adjustments forward		21,422 00	16,341 50		
2	Notes Receivable Discounted	500 00				500 00
3	Reserve for Doubtful Accounts	114 00		261 00		375 00
4	Reserve for Depr. of Building	900 00		300 00		1,200 00
5	Reserve for Depr. of Store Fixt	80 00		20 00		100 00
6	Reserve for Depr. of Del. Equip.	320 00		160 00		480 00
7	Purchase Returns & Allow.	285 00			285 00	
8	Sales	34,150 00			34,150 00	
9	J. C. Forbes, Capital	15,150 00				15,150 00
10	R. W. Ferris, Capital	16,267 00				16,267 00
11	Mortgage Payable	5,000 00				5,000 00
12	Notes Payable	2,300 00				2,300 00
13	Accounts Payable	14,130 00				14,130 00
14	Interest Earned	40 00		16 00	56 00	
15	Purchase Discounts	465 00			465 00	
16						
17						
18						
19						
20		$89,701 00				
21	New Accounts					
22	Accrued Interest Payable			72 00		72 00
23	Salaries Accrued			75 00		75 00
24	Sundry Liabilities			37 50		37 50
25						
26	J. C. Forbes, Personal					
27	½ Net Profit			2,069 50		2,069 50
28	R. W. Ferris, Personal					
29	½ Net Profit			2,069 50		2,069 50
30						
31						
32			21,422 00	21,422 00	34,956 00	59,825 50

The Working Sheet illustrated.—The Working Sheet here illustrated was prepared from the Trial Balance of Forbes and Ferris, shown in Chapter IX, and the additional facts given in conjunction with it.

The Trial Balance of Forbes and Ferris is shown on page 122, and the adjusting entries, which support the Working Sheet, are shown on pages 123–124.

Exercises

1. The following Trial Balance was taken from the general ledger of Harris and Wood at December 31, 19—. From it and the appended data, prepare:

(a) Adjusting entries.

(b) A Working Sheet.

(c) A Statement of Profit and Loss for the year ended December 31, 19—.
(d) A Balance as of December 31, 19—.
(e) Final or closing entries.

H. F. Harris, Capital		$27,000
J. C. Wood, Capital		27,000
H. F. Harris, Personal	$ 200	
J. C. Wood, Personal		445
Cash	18,342	
Notes Receivable	12,700	
Accounts Receivable	16,485	
Delivery Equipment	2,980	
Real Estate	20,000	
Furniture and Fixtures	540	
Notes Payable		15,600
Accounts Payable		11,580
Merchandise Inventory, Dec. 31, 19—	27,900	
Purchases	14,000	
Sales		36,816
Discount on Purchases		170
Discount on Sales	150	
Commission Cost	1,200	
Salaries	1,800	
Rent	1,500	
Freight In	160	
Freight Out	112	
Office Supplies	80	
General Expense	432	
Advertising	114	
Interest Income		160
Interest Cost	76	
	$118,771	$118,771

Merchandise Inventory, Dec. 31, 19—	$18,300
Office Supplies unused	25
Advertising Deferred	36
Accrued Interest Receivable	100
Accrued Interest Payable	90
Accrued Salaries	100

Set up a reserve of ¼% of sales for doubtful accounts.
Reserve for depreciation 10% of the ledger value of delivery equipment and also 10% of the ledger value of furniture and fixtures.
Profits and losses are shared equally.

2. The following Trial Balance was taken from the general ledger of Brown and Smith on December 31, 19—. The books are to be closed as of that date. From the trial balance and the additional information given, prepare:

(a) The adjusting entries.
(b) A Working Sheet.

(c) A Statement of Profit and Loss for the year ended December 31, 19—.
(d) A Balance Sheet.
(e) Closing entries.

Cash in Bank	$10,128.67	
Petty Cash	100	
Notes Receivable	9,000	
Notes Receivable Discounted		$2,000
Accounts Receivable	18,240	
Real Estate	15,000	
Merchandise Inventory, December 31, 19—	30,000	
Sales Income		40,681.35
Purchases	20,000	
Sales Returns	200.35	
Purchases Returns		100
Freight Inward	160	
Shipping Supplies	640	
Freight Outward	120	
Insurance	300	
Office Supplies	90	
Salaries	3,200	
General Expense	1,755	
Interest Earned		30
Rent Income		600
Interest Cost	5	
Sales Discount	410	
Purchases Discount		380
Delivery Equipment	2,000	
Furniture and Fixtures	600	
Notes Payable		11,000
Accounts Payable		7,872
D. A. Brown, Capital		17,000
D. A. Brown, Personal		414.33
W. E. Smith, Capital		34,000
W. E. Smith, Personal	2,128.66	
	$114,077.68	$114,077.68

Additional Information:

Merchandise Inventory, December 31, 19—	$24,060
Insurance Unexpired	125
Shipping Supplies Inventory	160
Accrued Interest Receivable	75
Accrued Interest Payable	60

Reserve for bad debts ½ of 1% of net sales.
Reserve for depreciation 10% of the ledger value of delivery equipment.
Reserve for depreciation 10% of the ledger value of furniture and fixtures.
Profits and losses are shared in proportion to the original capital investments.

3. Using the following Trial Balance taken from the books of Wells and Orr for the year ending December 31, 19—, in which all the accounts affected by inventories, except the trad-

ing or merchandise accounts, have already been adjusted, prepare a Profit and Loss Statement and a Balance Sheet.

(The partnership agreement provides that the net profit or net loss is to be shared by the partners in proportion to their respective investments.)

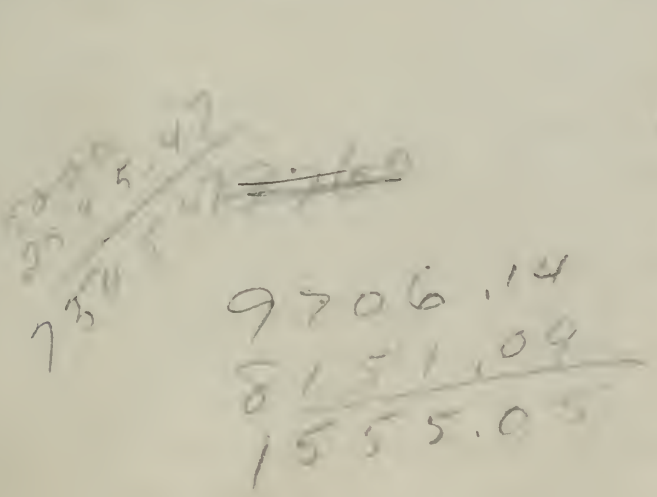
S. T. Wells, Capital		$30,000
S. T. Wells, Personal	$4,000	
R. W. Orr, Capital		10,000
R. W. Orr, Personal	1,000	
Cash	3,728.61	
Notes Receivable	8,271.50	
Notes Receivable Discounted		6,000
Accounts Receivable	11,247	
Reserve for Bad Debts		112.47
Office Supplies Inventory	128.31	
Shipping Supplies Inventory	78.42	
Unexpired Insurance	260	
Mortgages Payable		10,000
Accrued Interest on Mortgages Payable		600
Accounts Payable		9,399.22
Furniture and Fixtures	2,000	
Reserve for Depreciation of Furniture and Fixtures		200
Buildings	15,000	
Reserve for Depreciation of Buildings		300
Delivery Equipment	2,000	
Reserve for Depreciation of Delivery Equipment		400
Provision for Bad Debts	112.47	
Interest Cost	728	
Shipping Supplies Expense	210	
Depreciation of Furniture and Fixtures	200	
Depreciation of Buildings	300	
Depreciation of Delivery Equipment	400	
Insurance Expense	70	
Office Supplies Used	258.71	
Salaries and Wages	8,267.43	
Discount on Purchases		329.41
Discount on Sales	479.36	
Purchases	31,797.13	
Merchandise Inventory, Dec. 31, 19—	17,246.38	
Sales		40,298.51
Purchases Returns and Allowances		143.71
	$107,783.32	$107,783.32

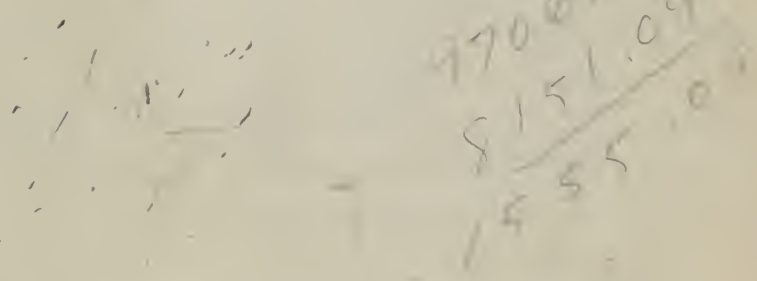
Merchandise on hand December 31, 19—, $16,752.38.

4. Using the following information taken from the books of Burton Hart & Co., for the year ending December 31, 19—, in which all the accounts affected by inventories, except the trading or merchandise accounts, have already been adjusted, prepare (a) a Profit and Loss Statement, (b) a Balance Sheet: [Profits and losses are to be shared equally.]

Cash, $4371; notes receivable, $9420; accounts receivable, $19,806; furniture and fixtures, $1200; sales, $186,282; purchases, $167,030; freight inward, $380; shipping supplies, $260; Shipping Department wages, $5400; office supplies expense, $246; merchandise inventory, December 31, 19—, $95,702; rent, $2400; office salaries, $9600; insurance expense, $50; interest cost, $90; depreciation of delivery equipment, $900; discount on purchases, $447; delivery equipment, $4500; insurance prepaid, $100; office supplies inventory, $87; accounts payable, $8800; notes payable, $15,000; accrued interest payable, $90; reserve for depreciation of delivery equipment, $900; Burton Hart, capital, $60,823; Burton Hart, personal (Dr.), $600; Dean Williams, capital, $50,300; Dean Williams, personal (Dr.), $500.

Merchandise on hand December 31, 19—, $108,732.





Chapter XI

ANALYSIS OF FINANCIAL STATEMENTS

Purpose of analysis.—The Balance Sheet and the Statement of Profit and Loss are prepared at the end of each fiscal period in order that those who are charged with the responsibility of managing a business enterprise may have information to guide them in the future. The records kept by the bookkeeper, and the reports prepared from those records, reflect the past operations of the business and should serve to assist in planning for intelligent management in the future.

In order that statements of results may be most useful, they should be carefully analyzed. It is not enough to know that a net profit has been made. The profit may or may not be satisfactory, depending upon different factors, such as the volume of business done, the amount of capital invested, the rate of return earned by other concerns in the same line of business, and so forth. It will be the purpose of this chapter to consider the basic principles of statement analysis.

Analysis of the Statement of Profit and Loss.—In analyzing the results of business operations, as set forth on the Statement of Profit and Loss, the component parts of the statement are usually considered in their relation to the net sales for the period. A comparison of the sales income with all costs of producing that income should be on a percentage basis.

There are definite reasons why the selling price of merchandise, and not the buying price, should be used as a basis for calculating percentages. Not only the buying price, but also the expenses necessary to carry on a business, must come out of the sales of goods before a profit has been realized. Moreover, no profit can arise until goods have been sold.

The following Statement of Profit and Loss indicates the manner of showing such percentages:

H. R. FOSTER
Statement of Profit and Loss for the Year Ended December 31, 19—

				%
Gross Sales		$25,150 00		
Less—returned sales		1,150 00		
Net Sales			$24,000 00	100
Cost of Goods Sold:				
Inventory, Jan. 1, 19—		6,230 00		
Purchases	$14,965.00			
Less Purchase Returns.	840.00	14,125 00		
Freight and Cartage In.		310 00		
Total Merchandise Cost		20,665 00		
Less—Inventory, Dec. 31, 19—		6,580 00		
Cost of Goods Sold..			14,085 00	53.7
Gross Trading Profit			9,915 00	41.3
Operating Expenses:				
Selling Expenses:				
Advertising	1,260.00			
Salaries of Salesmen.	1,800.00			
Expenses of Salesmen	320.00	3,380 00		
Administrative Expenses:				
Rent	1,200.00			
Heat and Light	350.00			
Depreciation—Store Fixtures	100.00			
Insurance Expense..	80.00			
General Expense	74.50	1,804 50		
Total Operating Expenses			5,184 50	21.6
Operating Profit			4,730 50	19.7
Other Income:				
Purchase Discounts		231 50		
Interest Earned		15 00		
Total Other Income.			247 00	1.0
Total Income			4,977 50	20.7
Deductions from Income:				
Sales Discounts		390 00		
Interest Cost		12 60		
Provision for Bad Debts		148 00		
Total Deductions			550 60	2.3
Net Profit			$4,426 90	18.4

Turnover.—By "turnover" is meant the number of times the average amount of stock of merchandise is sold out during the period. The procedure in finding turnover is to take the cost of goods sold and divide it by the average inventory. The

average inventory is found by dividing the sum of the beginning and final inventories by two.

Thus, the turnover for the business of H. R. Foster, analyzed in the foregoing Statement of Profit and Loss, is determined as follows:

$$\$14{,}085 \text{ divided by } \frac{6{,}230 + 6{,}580}{2} = \frac{14{,}085}{6{,}405} = 2.2$$

This means that the stock was sold out 2⅕ times during the year.

Significance of operating expenses.—The prime purpose of a business organization is to make a profit. The profit for any given period is the gross income minus the cost of producing that income. Operating profit, therefore, is found by deducting the cost of goods sold and the operating expenses from the net sales. Since the cost of merchandise cannot be controlled by the merchant to any great extent, it is obvious that the real way to increase the profits on a given total of sales is to reduce operating expenses.

To illustrate, assume that the following simple statement indicates the operations of a business for a period of six months:

Sales	$100,000
Cost of Goods Sold	60,000
Gross Profit	40,000
Operating Expenses	30,000
Profit	$10,000

If the operating expenses had been reduced 33⅓% during the six months and the same total of sales had been made during the period, the result would have been as follows:

Sales	$100,000
Cost of Goods Sold	60,000
Gross Profit	40,000
Operating Expenses	20,000
Profit	$20,000

Thus, a reduction of 33⅓% in the operating expenses meant an increase of 100% in the profit.

It should be noted, in this connection, that operating expenses might be increased with beneficial results. Thus, an advertising campaign and the hiring of additional salesmen may have increased the operating expenses 50% and at the same time doubled the sales. In that case, the result is:

Sales	$200,000
Cost of goods sold	120,000
Gross profit	80,000
Operating expenses	45,000
Profit	$ 35,000

Here, the increase of 50% in the operating expenses resulted in an increase of 250% in the profit.

Analysis of the Balance Sheet.—The importance of an analysis of the Balance Sheet, in judging financial condition, was suggested in Chapter IX. The total amount of assets or of liabilities, as shown by the Balance Sheet, may not be very significant. If the Balance Sheet is to be read intelligently, however, it is important to determine certain relations which exist.

Not only will the owner of a business study the Balance Sheet for information as to his financial condition, but creditors and prospective creditors will examine it as well. Trade creditors of a business are to be paid out of current assets, hence they will be particularly interested in the relationship which exists between current assets and current liabilities. Unless a sound financial condition is indicated on the Balance Sheet, the owner of a business may have difficulty in securing credit.

There is a tendency for the owner of a business to take a very optimistic stand regarding his financial condition. He should, however, have much the same viewpoint as an outsider when judging his financial condition from his own Balance Sheet.

The use of percentages in Balance Sheet analysis is shown in the following Balance Sheet, prepared for H. R. Foster at December 31, 19—:

H. R. FOSTER
Balance Sheet, December 31, 19—

				%
Assets				
Current Assets:				
Cash		$4,560 00		
Notes Receivable		1,750 00		
Accounts Receivable	$7,400.00			
Less—Reserve for Bad Debts	148.00	7,252 00		
Merchandise Inventory		6,580 00		
Total Current Assets			$20,142 00	94.8
Fixed Assets:				
Store Fixtures	1,200.00			
Less—Reserve for Depreciation	300.00	900 00		
Total Fixed Assets			900 00	4.2
Deferred Charges to Expense:				
Insurance Prepaid		160 00		
Fuel on Hand		50 00		
Total Deferred Charges			210 00	1.0
Total Assets			$21,252 00	100.
Liabilities				
Current Liabilities:				
Notes Payable		$1,800 00		
Accrued Interest Payable		8 50		
Accounts Payable		8,137 50		
Total Liabilities			$ 9,946 00	46.8
Capital				
H. R. Foster, 1/1/19—		9,279 10		
Add—Net Profit	$4,426.90			
Less drawings	2,400.00	2,026 90		
Net Worth, December 31, 19—			11,306 00	53.2
Total Liabilities and Capital			$21,252 00	100.

Working capital.—The *working capital* of a business is the excess of the current assets over the current liabilities. The ratio of current assets to current liabilities is a very significant factor in determining the solvency of a business, since the current debts of the business must be paid out of current assets.

In the business of H. R. Foster, the working capital is:

$$\$20{,}142 - \$9{,}946, \text{ or } \$10{,}196.$$

The working capital ratio is:

$$\frac{\$20{,}142}{9{,}946} = 2.25; \text{ or } 2\tfrac{1}{4} \text{ to } 1.$$

It should be noted that the ratio of working capital is of even greater importance than the absolute working capital. This may be shown by the following illustration:

	Company A	*Company B*
Current Assets	$40,000	$400,000
Current Liabilities	10,000	370,000
Working Capital	$30,000	$ 30,000
Working Capital Ratio	4 to 1	1.08 to 1

Although both companies have the same working capital, it is clear that Company A is in a much better financial condition. To be in sound financial condition, a business should have a working capital ratio of at least 2 to 1.

Return on capital invested.—Though the percentage of net profit, based on the net sales, is an important consideration, it is important also to inquire into the return on capital invested.

The Statement of Profit and Loss on page 145 shows that the net profit was 18.4% of the net sales. The return on capital invested at the beginning of the year was $4,426.90 ÷ $9,279.10, or 47.7%.

The ratio of accounts receivable to sales.—A comparison of the total accounts receivable with the net sales indicates the efficiency of the department of credits and collections. On the statements prepared for H. R. Foster, the total owed by customers is $7,400. The net sales were $24,000. In other words, nearly one-third of the sales have not been collected.

This may or may not indicate an unfavorable condition, depending on the kind of business, the terms customary in that line, and also upon the amount of goods sold during the last few days of the accounting period.

The ratio of accounts payable to purchases.—By comparing the outstanding accounts payable with the purchases for the period, we have an indication of the promptness with which trade creditors are paid.

On the statements prepared in this chapter, the accounts payable are $8,137.50, while purchases were $14,125. Thus, more than one-half of the purchases remain unpaid. This would seem to indicate an unfavorable condition and a lack of policy of paying bills promptly to obtain discounts.

Here, again, definite conclusions cannot be drawn unless we know the kind of business and the credit terms allowed by trade creditors. Seasonal purchases often mean an unusually large proportion of accounts payable outstanding at the end of an accounting period, and such factors must be taken into account in analyzing the Balance Sheet.

Comparative statements.—In order that studies of financial statements shall be most valuable, comparisons should be made from one year to another. In this way, the results of management policies may be more clearly judged.

The Statement of Profit and Loss, prepared for a single accounting period, can show only the results of business operations for that particular period. The results may appear satisfactory until compared with those of the previous period, or of some other period. The comparative Statement of Profit and Loss provides a study of the results of business operations by accounting periods.

In a like manner, the study of a single Balance Sheet may indicate a satisfactory financial condition. When compared with the previous Balance Sheet, tendencies may be disclosed which are contrary to the financial welfare of the business. The amounts of the various items which compose the Balance Sheet are likely to change considerably from one period to another. These changes should be watched carefully and, in many cases, should be investigated. To facilitate such a study, the comparative Balance Sheet is prepared showing the state of affairs at different dates and the changes that have taken place.

In the comparative Statement of Profit and Loss and the comparative Balance Sheet illustrated on pages 151–152, the several items are set forth in parallel columns. Thus, we have a detailed picture of the trend from one year to the next. All important changes in the items which compose the statements should be carefully investigated.

The comparative Statement of Profit and Loss.—The following is an illustration of a comparative Statement of Profit and Loss, showing the operations of the business of D. E. Sanders for two consecutive years:

D. E. SANDERS

Comparative Statement of Profit and Loss for Two Years Ended June 30, 19—

	Year ended June 30 Last year	%	Year ended June 30 This year	%
Gross Sales	$45,690 00		$59,170 00	
Less—Sales returns	690 00		1,170 00	
Net Sales	45,000 00	100.0	58,000 00	100.0
Cost of Goods Sold:				
Inventory, January 1	8,300 00		9,500 00	
Purchases	26,100 00		32,400 00	
Freight and Cartage In	1,250 00		1,490 00	
	35,650 00		43,390 00	
Less—Inventory, June 30	9,400 00		12,740 00	
Purchase returns	950 00		1,250 00	
	10,450 00		13,990 00	
Cost of Goods Sold	25,200 00	56.0	29,400 00	50.7
Gross Trading Profit	19,800 00	44.0	28,600 00	49.3
Operating Expenses:				
Selling Expenses:				
Advertising	3,750 00		5,500 00	
Salesmen's Salaries	3,500 00		4,200 00	
Delivery Expenses	520 00		650 00	
Total	7,770 00	17.3	10,350 00	17.8
Administrative Expenses:				
Office Salaries	2,100 00		2,500 00	
Office Supplies	360 00		470 00	
Light & Heat	390 00		460 00	
Insurance	220 00		375 00	
Depreciation Charges	980 00		980 00	
Total	4,050 00	9.0	4,785 00	8.3
Total Operating Expenses	11,820 00	26.3	15,135 00	26.1
Operating Profit	7,980 00	17.7	13,465 00	23.2
Other Income:				
Purchase Discounts	510 00		780 00	
Interest Earned	39 00		44 00	
Total Other Income	549 00	1.2	824 00	1.4
Total Income	8,529 00	18.9	14,289 00	24.6
Deductions from Income:				
Provision for Bad Debts	1,350 00		1,740 00	
Sales Discounts	850 00		1,240 00	
Interest Cost	321 00		510 00	
Total Deductions from Income	2,541 00	5.6	3,490 00	6.0
Net Profit	$5,988 00	13.3	$10,799 00	18.6

The comparative Balance Sheet.—The following comparative Balance Sheet, prepared for D. E. Sanders, shows the condition of his business at the end of each year covered by the preceding comparative Statement of Profit and Loss. The column at the right shows the amount of increase or decrease in the items which compose the statement.

D. E. SANDERS
Comparative Balance Sheet, June 30, 19—, and June 30, 19—

	June 30, 19— (*Last year*)	June 30, 19— (*This year*)	*Increase or Decrease*
Assets			
Current Assets;			
Cash	$ 8,420 00	$9,660 00	+ $1,240 00
Notes Receivable	2,100 00	2,700 00	+ 600 00
Customers (Less Reserve for Bad Debts)	5,560 00	6,200 00	+ 550 00
Merchandise Inventory	9,500 00	12,740 00	+ 3,240 00
Accrued Interest Receivable	12 00	18 00	+ 6 00
Total Current Assets	25,682 00	31,318 00	+ 5,636 00
Fixed Assets			
Land	5,000 00	5,000 00	
Building (Book value)	15,600 00	15,200 00	− 400 00
Motor Trucks (Book value)	1,600 00	1,200 00	− 400 00
Store Fixtures (Book value)	1,620 00	1,440 00	− 180 00
Total Fixed Assets	23,820 00	22,840 00	− 980 00
Deferred Charges to Expense;			
Insurance Prepaid	160 00	190 00	+ 30 00
Office Supplies	45 00	30 00	− 15 00
Total Deferred Charges	205 00	220 00	+ 15 00
Total Assets	$49,707 00	$54,378 00	+ $4,671 00
Liabilities			
Current Liabilities;			
Notes Payable	$ 1,800 00	$ 1,900 00	+ 100 00
Accounts Payable	6,750 00	7,300 00	+ 550 00
Salaries Payable	110 00		− 110 00
Accrued Interest Payable	64 00	51 00	− 13 00
Total Current Liabilities	8,724 00	9,251 00	+ 527 00
Fixed Liabilities;			
Mortgage Payable	5,000 00	5,000 00	
Total Liabilities	$13,724 00	$14,251 00	+ 527 00
Proprietorship			
D. E. Sanders, Invested Capital	$34,195 00	$35,983 00	+ $1,788 00
Profit for Year	5,988 00	10,799 00	+ 4,811 00
	40,183 00	46,782 00	+ 6,599 00
Less—Drawings	4,200 00	6,655 00	+ 2,455 00
Net Worth, June 30	$35,983 00	$40,127 00	+ $4,144 00

Analysis of the comparative statements.—An examination of the two comparative statements prepared for the business of D. E. Sanders will reveal the following important information:

1. *Turnover.*—Using the method illustrated on page 146, the turnovers for the years in question are found.

For the first of the two years:

$$\$25{,}000 \div \frac{\$8{,}300 + \$9.500}{2} = 2.8$$

For the following year:

$$\$29{,}400 \div \frac{\$9{,}500 + \$12{,}740}{2} = 2.6$$

The significant fact here is that, in spite of the considerable increase in the sales, the rate of turnover actually decreased. The reason is that the inventory of merchandise was too large throughout the second year. Mr. Sanders evidently purchased more advantageously during the second year, as evidenced by the decrease in the ratio of cost of sales to net sales, and this may have caused him to buy too freely. It would be better, as a rule, to maintain a smaller inventory and make more frequent turnovers, since a smaller amount of capital is invested in the former case.

2. *Ratio of operating expenses to sales.*—In spite of the large increase in the total of operating expenses, the ratio remained practically unchanged. The principal item of increase was in the amount expended for advertising. The resulting increase in sales justified the large increase in advertising expense.

3. *Working capital ratio.*—The analysis of the current assets and the current liabilities for the two years in question shows the following:

For the first year:

$$\$25{,}682 - \$8{,}724 = \$16{,}958$$

$$\text{Ratio } \frac{25{,}682}{8{,}724} = 2.9 \text{ to } 1$$

For the second year:

$$31{,}318 - 9{,}251 = 22{,}067$$

$$\text{Ratio } \frac{31{,}318}{9{,}251} = 3.4 \text{ to } 1$$

From the above analysis, it is seen that the working capital has been considerably increased in amount, and that the working capital ratio has been strengthened as well.

4. *Rate of return on capital invested.*—The method of determining the rate of return on capital invested, illustrated on page 149, should be applied to the comparative statements.

The rate of return for the first year:

$$5{,}988 \div 34{,}195 = 17.5$$

The rate of return for the second year:

$$10{,}799 \div 35{,}983 = 30.0$$

The above analysis indicates a substantial increase in the rate of return on capital.

5. *Ratio of accounts receivable to sales.*—An analysis of collections for the two years in question follows:

For the first year, the net sales amounted to $45,000 and the accounts receivable at the end of the period totaled $5,650. Thus, about $\frac{1}{8}$ of the sales remained uncollected.

For the second year, the net sales amounted to $58,000 and the accounts receivable totaled $6,200. Here we have about $\frac{1}{11}$ of the sales uncollected. This decrease in the ratio of accounts receivable to sales is a good indication.

6. *Ratio of accounts payable to purchases.*—The analysis of accounts payable, and the relation of the total outstanding to the purchases for each period follows:

For the first year, the net purchases were $25,150 ($26,100 —$950), while the accounts payable at June 30 stood at $6,750. This means that slightly more than $\frac{1}{4}$ of the purchases had not been paid for.

For the second year, the net purchases were $31,150 ($32,400—$1,250) and the accounts payable were $7,300 at June 30. Thus, slightly less than $\frac{1}{4}$ of the purchases remained to be paid for.

Review Questions

1. Why should business statements be analyzed?

2. In analyzing a Statement of Profit and Loss, what amount is used as a basis in calculating percentages?

3. Explain what is meant by "turnover."

4. Why is it important to inquire into the ratio of operating expenses to net sales?

5. Name two general classifications of items included in operating expenses.

6. What is meant by "working capital"?

7. How do you find the working capital ratio?

8. How do you find the percentage of return on net capital invested?

9. What is the significance of the ratio of accounts receivable, at the end of a fiscal period, to the net sales for the period?

10. What is the significance of the ratio of accounts payable, at the end of a fiscal period, to the net purchases for that period?

11. What is a comparative Statement of Profit and Loss? A comparative Balance Sheet?

12. Why are comparative statements more valuable than the statements prepared for a single accounting period, when judging the results of business operations?

Exercises

1. From the following Trial Balance and the additional information given, prepare:

(a) A Statement of Profit and Loss, showing percentages based upon the net sales.
(b) A classified Balance Sheet showing percentages, as illustrated on page 148.

Calculate:

(a) The rate of turnover.
(b) The working capital.
(c) The working capital ratio.
(d) The rate of return on capital invested.
(e) The ratio of accounts receivable to net sales.
(f) The ratio of accounts payable to net purchases.

TAYLOR & BAKER
Trial Balance, December 31, 19—

Cash	$ 9,938.00	
Notes Receivable	9,500.00	
Notes Receivable Discounted		$ 2,600.00
Accounts Receivable	7,450.00	
Reserve for Doubtful Accounts		110.00
Real Estate	16,000.00	
Reserve for Depreciation of Building		2,800.00
Motor Trucks	2,100.00	
Reserve for Depreciation of Motor Trucks		500.00
Furniture and Fixtures	650.00	
Reserve for Depreciation of Furniture		150.00
Merchandise Inventory, Jan. 1	18,000.00	
Purchases	24,000.00	
Freight Inward	390.00	
Purchase Returns		300.00
Sales		40,360.00
Sales Returns	360.00	
Shipping Supplies	450.00	
Insurance Prepaid	360.00	
Office Supplies	85.00	
Office Salaries	3,300.00	
General Expense	670.00	
Advertising	1,800.00	
Salesmen's Salaries and Expenses	4,000.00	
Rent Income		500.00
Interest Cost	27.00	
Sales Discounts	560.00	
Purchase Discounts		390.00
Interest Earned		30.00
Notes Payable		7,500.00
Accounts Payable		9,200.00
M. Taylor, Capital		12,000.00
M. Taylor, Personal		400.00
R. Baker, Capital		24,000.00
R. Baker, Personal	1,200.00	
	$100,840.00	$100,840.00

Additional information:

Merchandise Inventory, December 31	$19,500.00
Insurance Prepaid	240.00
Shipping Supplies on hand	50.00
Office Supplies on hand	10.00
Accrued Interest Receivable	12.00
Accrued Interest Payable	15.00
Office Salaries Accrued	100.00

Depreciation Charges:
On Motor Trucks, 20% of book value.
On Furniture and Fixtures, 10% of original cost.
On Building 5% on a cost of $12,000.

The reserve for doubtful accounts is to be increased by ½ of 1% of the net sales.

Profits and losses are shared in proportion to original capital.

2. The following are the adjusted trial balances taken from the general ledger of C. R. Hale at June 30 of two consecutive years and before making final entries to close the books. In each case, all adjusting entries had been made except the entries for the merchandise inventory adjustment.

Prepare:

(a) A comparative Statement of Profit and Loss.

(b) A comparative Balance Sheet.

Calculate, for each year:

(a) The rate of turnover.

(b) The working capital and the working capital ratio.

(c) The rate of return on capital invested.

	June 30, 19— (Last year)		June 30, 19— (This year)	
Cash	$ 9,400.00		$10,600.00	
Notes Receivable	4,200.00		4,500.00	
Accounts Receivable	16,500.00		15,700.00	
Inventory	9,510.00		10,350.00	
Store Fixtures	930.00		1,040.00	
Motor Trucks	2,000.00		1,800.00	
Reserve for Depr., Fixtures		260.00		350.00
Reserve for Depr., Trucks		400.00		800.00
Reserve for Bad Debts		320.00		360.00
Purchases	29,750.00		31,380.00	
Freight Inward	410.00		470.00	
Sales		47,000.00		50,000.00
Shipping Supplies	60.00		50.00	
Insurance Prepaid	300.00		200.00	
Office Supplies	20.00		30.00	
Shipping Supplies Expense	400.00		440.00	
Insurance Expense	100.00		100.00	
Office Supplies Used	90.00		75.00	
Salaries	4,200.00		4,400.00	
General Expense	260.00		280.00	
Advertising	2,000.00		3,000.00	
Traveling Expenses	590.00		640.00	
Rent	2,400.00		2,400.00	
Interest Cost	56.00		61.00	
Depreciation	480.00		500.00	
Provision for Bad Debts	250.00		300.00	
Sales Discounts	520.00		611.00	
Purchase Discounts		430.00		480.00
Interest Earned		64.00		72.00
Notes Payable		5,600.00		5,100.00
Accounts Payable		9,250.00		9,370.00
Accrued Int. Receivable	12.00		10.00	
Accrued Interest Payable		16.00		14.00
Sundry Liabilities		45.00		30.00
C. R. Hale, Capital		22,253.00		23,861.00
C. R. Hale, Personal	1,200.00		1,500.00	
	$85,638.00	$85,638.00	$90,437.00	$90,437.00

Merchandise Inventory—
Last year, $10,350; this year, $9,800.

3. The following is a condensed Statement of Profit and Loss of A. R. Wharton for the year ended December 31, 19—

Sales	$150,000.00
Cost of Goods Sold	100,000.00
Gross Profit	$50,000.00
Operating Expenses	40,000.00
Net Profit	$10,000.00

(a) If the operating expenses had been reduced 25% for the year, other facts being the same, by what per cent would the net profit have been increased?

(b) If the sales of goods had been increased 50% as a result of an advertising campaign which increased the operating expenses 25%, what would have been the amount of increase in net profit? What would have been the percentage of increase in net profit?

4. F. J. Bale has current assets of $9,600 and current liabilities of $3,500. What is the amount of working capital? What is the working capital ratio?

5. Company A has current assets of $60,000 and current liabilities of $24,000. Company B has current assets of $390,000 and current liabilities of $300,000. Which company is in the better financial condition? Why?

6. The inventory of a certain business on January 1, 19— was $6,200; the purchases for the year were $17,600, and the sales $33,000. The inventory at the end of the year was $6,000.

(a) What was the ratio of cost of goods sold to sales?

(b) What was the rate of turnover?

7. Which is better, 10 turnovers at an average profit of $1000 each, or five turnovers at an average profit of $2000 each? Explain.

8. Brown maintains an average inventory of $10,000 and has five turnovers during the year at an average profit of $1,500 each. Smith has an average inventory of $20,000 and makes three turnovers at an average profit of $2,500 each. Which has the better business? Why?

9. Ellison bought merchandise costing $1,000, terms 2/10, n/30. He paid $980 on the tenth day after the purchase. What was the approximate rate per cent per annum earned by taking advantage of the discount in making payment?

If the terms had been 5/10, n/30, what would be your answer?

Chapter XII

HANDLING THE CASH AND PETTY CASH

Handling cash receipts and payments.—In every properly systematized business, all cash received, whether in the form of currency, checks, or money orders, is deposited daily at the bank, and whenever possible all payments are made by check.

Payments of some transactions, however, cannot be made by check but must be made in currency. Examples of such transactions are payments for carfare, ferrying one's automobile, entertaining customers, and the like. Cash, in the form of currency, therefore, must always be on hand for the payment of such items. Cash set aside for such purposes is called *petty cash.*

Providing the petty cash fund.—If the practice is followed of depositing all cash received at the bank, it is customary, whenever currency is needed for petty cash purposes, for the bookkeeper to draw a check to the order of Petty Cash. This is drawn for an amount equal to the estimated needs of the business for a period of time, such as the month. He has this check cashed at the bank and the money placed in the cash till; and, whenever the occasion arises to make payment in currency, he takes a receipt from the one to whom the payment is made. Thus, control is established over the petty cash fund, since all receipts of petty cash are limited to checks drawn for that purpose by the business itself and since all payments must be supported by receipts.

If the practice is followed of periodically replenishing the fund for the exact amount expended, so that the original amount set aside is always maintained, the method is referred to as the Imprest Cash system.

Handling petty cash by the Imprest Cash system.—There are several methods of handling petty cash. A method advocated by accountants and commonly employed is that

known as the Imprest Cash system. By this method, the original amount set aside to establish the petty cash fund is kept intact by issuing, in the future, checks for only the exact amount of cash disbursed. The operation of this system will now be explained.

Operation of the Imprest Cash system.—The operation of the Imprest Cash system can best be explained by means of an illustration. Consider, therefore, the following transactions:

July 2 Established an Imprest Cash fund by drawing check #482 in the amount of $100 to the order of Petty Cash.

31 Issued check #524 to the order of Petty Cash for $57.00.

Paid out of petty cash:

July	6	For freight on incoming shipment	$26.50
	17	For freight on outgoing shipment	17.50
	20	For postal cards	5.00
	25	For gasoline and oils	6.50
	29	For telegram	1.00
	29	For carfares	.50
			$57.00

When check No. 482 in the amount of $100 is drawn, the bookkeeper makes an entry in the cash payments journal, as shown in the illustration on page 162.

He then has the check cashed at the bank and records the receipt of the currency and the disbursements in the petty cashbook as follows:

Petty Cashbook

Amount Received	*Date*	*Explanation*	*Amount Paid*	*Freight Inward*	*Freight Outward*	*Postage*	*Auto Expense*	*General Expense*	*Other Accounts*	*Amount*
100 00	19— July 2	Check #482								
	6	Freight Inward	26 50	26 50						
	17	Freight Outward	17 50		17 50					
	20	Postal Cards	5 00			5 00				
	25	Gasoline and Oils	6 50				6 50			
	29	Telegrams	1 00						Tel. & Tel.	1 00
	29	Carfares	50					50		
			57 00	26 50	17 50	5 00	6 50	50		1 00
	31	Balance	43 00							
100 00			100 00							
43 00	31	Balance								
57 00	31	Check #524								

Assuming that the fund needs replenishing, the bookkeeper then rules and balances the petty cashbook and issues a check for the exact amount of petty cash disbursed. He has the check (in this case, one for $57) cashed at the bank and then records the receipt of the currency in the petty cash journal, as shown in the illustration on page 161.

On drawing the reimbursement check (the amount of which in this case is $57), the bookkeeper makes an entry in the cash payments journal, debiting the accounts affected and crediting the cash account for the amount of the check, as shown in the illustration on this page.

It should be noted that, by this system, all postings are made from the cash payments journal and that no postings are made from the petty cash journal. This is primarily owing to the fact that in the larger businesses there are many petty cash funds. Usually a separate petty cash fund is provided for each department, such as the purchasing, receiving, shipping, selling, and administrative departments. In such cases, the bookkeeper does not keep the petty cash journal, but makes entries covering petty cash disbursements in the cash payments journal whenever a reimbursement check is drawn, as illustrated below.

Cash Payments Journal

Date	*F.*		*Net Cash*	*Accounts Payable*	*Purchase Discount*	*General Ledger*
19—						
July 2		Imprest Cash Fund, Check #482.....	100 00			100 00
31		Freight Inward, Check #524.....	57 00			26 50
31		Freight Outward.....				17 50
31		Postage.....				5 00
31		Auto Expense.....				6 50
31		General Expense.....				50
31		Tel. & Tel.....				1 00

The net result of these entries is that the expense accounts are debited and the cash account is credited for the petty cash disbursements through the cash payments journal and that

the balance of the Imprest Cash Fund account remains unchanged.

Posting from the petty cash journal.—The petty cash journal is sometimes used for posting the petty cash disbursements to accounts in the ledger. This may be the case if there is only one petty cash fund and that fund is handled by the bookkeeper. The bookkeeper may then make a summary entry of the petty cash disbursements in the petty cash journal and post from the summary entry to the accounts affected in the ledger. Using as an illustration the disbursements shown in the previous illustration, the summary entry will be as follows:

July 31

Freight Inward	26.50	
Freight Outward	17.50	
Postage	5.00	
Auto Expense	6.50	
General Expense	.50	
Telephone and Telegrams	1.00	
Imprest Cash Fund		57.00

When the reimbursement check is issued, the entry made in the cash payments journal, expressed here in journal form, will be as follows:

Imprest Cash Fund	57.00	
Cash		57.00

It should be noted that, where this procedure is followed, the Imprest Cash Fund account is debited and credited with the same amount, but that the balance of the account remains unchanged.

Other methods of handling petty cash.—We shall now explain other methods of handling petty cash, all of which, however, are inferior to the Imprest Cash system. These may be enumerated as follows:

1. Issuing checks for the same amount whenever funds are needed for petty cash purposes.

2. Making an entry in the cash payments journal, debiting the expense account and crediting the cash account whenever a check is drawn for petty cash purposes.

3. Retaining, for petty cash purposes, part of the currency collected from cash sales.

1. *Issuing checks for the same amount.*—Under this method of handling petty cash funds, it is the practice, whenever the petty cash fund needs replenishing, to issue a check for the same amount. Thus, if it is decided that a petty cash fund of $100 will serve the needs of the business, a check is drawn for that amount; and whenever in the future more funds are needed, another check for $100 is issued, and so on.

For the purpose of illustration, consider the following petty cash transactions:

July 2	Drew check #482 in the amount of $100 to the order of Petty Cash.	
31	Drew check #524 in the amount of $100 to the order of Petty Cash.	
	Paid out of petty cash:	
July 6	For freight on incoming shipments	26.50
17	For freight on outgoing shipments	17.50
20	For postal cards	5.00
25	For gasoline and oils	6.50
29	For telegrams	1.00
29	For carfares	.50
		57.00

The petty cash receipts and disbursements would be recorded in the petty cash journal in the same manner as previously illustrated. However, by this method, postings of petty cash disbursements are usually made from the petty cash journal to the accounts affected in the ledger. The entries are here expressed in journal form, as follows:

	July 2			
	Petty Cash Fund	100 00		
	Cash			100 00
	July 31			
	Freight Inward	26 50		
	Freight Outward	17 50		
	Postage	5 00		
	Auto Expense	6 50		
	Telephone & Telegrams	1 00		
	General Expense	50		
	Petty Cash Fund			57 00
	July 31			
	Petty Cash Fund	100 00		
	Cash			100 00

It will be noted that, by this method, the balance of the petty cash fund account changes every time a check is drawn

to replenish the fund; whereas by the Imprest Cash system the balance of the account remains fixed.

This method is sometimes employed where there is but one petty cash fund. It is lacking in system and is not as easily controlled as is the Imprest Cash system.

2. *Making an entry in the cash payments journal, debiting the expense account and crediting the cash account whenever a check is drawn for petty cash purposes.*—By this method of handling petty cash, an entry is made in the cash payments journal, debiting the expense account and crediting the cash account immediately on issuing a check for petty cash purposes. This is done just as though the amount had actually been paid out for expenses incurred, whereas, as a matter of fact, the money is still on hand. This procedure not only is wrong in principle, since it misstates the facts, but also is conducive to loose methods of handling petty cash funds. It frequently happens, when this method is employed, that no special journal is kept for recording petty cash receipts and payments.

3. *Retaining, for petty cash purposes, part of the currency collected from cash sales.*—Contrary to the rule that all cash received, whether in the form of checks, drafts, money orders, or currency, should be deposited at the bank, it sometimes happens in a small business that part of the currency received from cash sales is not deposited in the bank, but is withheld for petty cash purposes. This method has the disadvantage of making the control over cash receipts more difficult than would be the case if all cash receipts were deposited at the bank. There is also the tendency to carry too much petty cash in the till to meet the needs of the business. Finally, where this method is used, it is customary to treat the petty cash fund as part of the general cash. It is so treated if no separate account is kept in the ledger for Petty Cash.

The cash retained for petty cash purposes is recorded in both the general cash receipts journal and the petty cash receipts journal, but no postings are made to accounts in the ledger from the petty cash receipts journal. Instead, postings are made only from the general cash receipts journal.

Likewise all disbursements are recorded in the petty cash payments journal, but no postings are made to accounts in the ledger from that journal. Instead, at the end of each month, the petty cash disbursements are recorded in the general cash payments journal, from which book they are posted to the proper accounts in the ledger.

In conclusion, it may be said that whenever possible the Imprest Cash system should be employed. It is for that reason that this method was illustrated in detail, whereas the other methods were merely explained.

Review Questions

1. Why should all receipts of cash be deposited in a bank?

2. What is the advantage of making payments by check?

3. Give instances in which payment by check would be inadvisable.

4. What is meant by "petty cash"?

5. What disadvantage can you see in the method of retaining, for petty cash purposes, a small amount each day when deposits are made?

6. Explain the operation of an Imprest Cash system of petty cash.

7. What is the principal point of difference between an ordinary petty cash system and the Imprest Cash system? In what respects are they similar?

8. What are the duties of the petty cashier?

9. What is the purpose of a Petty Cash Book?

10. Why should the petty cashier take a receipt for all payments made by him?

11. What is the nature of the Petty Cash Book?

12. Explain two methods of making entries at the time of drawing a check to replenish the Imprest Cash fund.

Exercises

1. Rule up a form for a Petty Cash Book similar to that shown on page 161. Enter the following:

July 1, 19—. Received check No. 89, $50, to establish an Imprest Cash fund.
3. Paid for postage stamps, $5.
5. Paid express charges on outgoing merchandise, $3.85.
10. Paid for auto supplies, $4.70.
14. Paid for telegram, $.75.
17. Bought a bottle of ink for office use, $.70.
20. Paid express charges on incoming merchandise, $4.60.
22. Paid for cleaning store windows, $4.50.
25. Paid for auto supplies, $4.50.
27. Bought a waste basket for the office, $.40.
29. Paid cash for office supplies, $6.20.
31. Paid for cartage on incoming merchandise, $5.50.

Rule up and balance the Petty Cash Book. Bring down the balance. Show the receipt of Check No. 127 to replenish the fund.

2. For this exercise, use a four-column Cash Payments Journal and a Petty Cash Book with money columns as follows: Amount Received, Amount Paid, General Expense, Office Supplies, Delivery Expense, Postage, Freight and Cartage In, and General.

Record the following in the books described:

May 1, 19—. Had check No. 119 cashed for an Imprest Cash fund, $50.
2. Paid rent for May by check, $200.
4. Paid for repairs to store shelves, $3.50, currency.
5. Paid our 60-day note and interest due to-day in favor of the Standard Bank, $900.
8. Paid for office supplies, $5.10, currency.
10. Paid Stone & Co. for their invoice of May 1, $360, less 2%.
12. Paid for supplies for delivery truck, $4.90, currency.
14. The proprietor, H. E. Wells, withdrew $60 for personal use, by check.
15. Paid freight charges on incoming merchandise, $8.25, currency.

May 15. Paid office salaries for the half-month, $115, by check.
18. Bought postage stamps for currency, $6.
19. Paid Lendon Brothers for their invoice of May 10, $415, less 2%.
22. Bought a filing cabinet for $90. The amount was paid by check.
25. Paid for advertising, $3.10, currency.
27. Paid 30-day note and interest due to-day in favor of F. P. Ramey, $300.
29. Paid currency for telegrams, $1.50.
31. Paid electric light bill in currency, $7.20.
Paid office salaries to date, $115, by check.

Rule and balance the Petty Cash Book. Bring down the balance. Check No. 129 was issued to replenish the Imprest Cash fund.

Assuming that the balance of the Cash Book was $1,227.50 at May 31, show the Cash Payments Journal closed. Show the summary to provide for posting of totals.

3. Prepare a form of Petty Cash Book similar to that required in exercise 2 above, and record the following:

May 31, 19—. The balance of the Petty Cash Book, after closing, was $14.50. Check No. 224 was issued to restore the Imprest Cash fund to its original amount of $100.

June 1. Paid for office supplies, $3.50.
3. Paid for messenger service, $1.50.
5. Paid express bill on merchandise purchased, $4.90.
7. Paid for postage stamps, $5.50; for postal cards, $2.00.
10. Paid telephone bill, $4.10.
12. Paid for gasoline and oil for delivery truck, $6.90.
14. Paid for cleaning office, $6.50.
17. Paid for advertising circulars, $12.50.
19. Paid for repairing electric sign, $7.
22. Paid for repairs to delivery truck, $6.40.
25. Paid for office supplies, $4.40.

June 27. Paid for telegram, $.75.
28. Paid for repairing typewriter, $2.50.
30. Paid protest fees on a note dishonored by R. E. Work, a customer, $1.10.

(a) Rule and balance the Petty Cash Book. Show the receipt of check No. 249 to replenish the fund.

(b) Show the entry (journal form) to be made in the Cash Payments Journal for check No. 249.

4. Assuming, in question 3, that posting is to be done from the Petty Cash Book, show:

(a) The summary entry below the ruling of the Petty Cash Book to provide for posting of totals.

(b) The entry (journal form) to be made in the Cash Payments Journal when the fund is replenished.

5. Use a four-column Cash Journal and a Petty Cash Book. The Cash Journal is to have columns arranged as follows: *receipts side*—Net Cash, Accounts Receivable, Sales Discounts and General Ledger; *payments side*—Net Cash, Accounts Payable, Purchase Discounts, General Ledger.

The Petty Cash Journal has money columns for Amount Received, Amount Paid, General Expense, Postage, Inward Freight, and General. At the end of the month, the book is to be closed and the summary for posting brought into the main Cash Journal.

Record the following selected transactions:

April 1, 19—. The cash balance is $7,290.50.
Check No. 92 is issued to the petty cashier, $35, to establish an Imprest Cash fund.
Received a check from S. E. Daniels for our invoice of March 22, $650, less 2%.
4. Discounted at the bank the 60-day non-interest-bearing note of H. W. Foster, $900, dated March 1; discount, 6%.
5. Received a check from Brown Brothers for rent of a portion of our building, $150.
7. Paid currency for cleaning windows and office floor, $4.50.

April 10. Purchased postage stamps for currency, $5.
12. Gave A. B. Lind a check for his invoice of April 3, $160, less 2%.
15. Paid office salaries by check, $200.
16. Received a check from G. E. Horton to apply on account, $400.
18. Received a bank draft from F. W. Baker for our invoice of April 8, $210. The terms of sale were 2/10, n/30.
19. Paid inward freight in currency, $2.90.
21. Paid our two months' note due to-day in favor of the Merchants Bank. Face of note, $1,200; interest, 6%.
24. The proprietor, L. C. Bates, withdrew from the petty cash, $10 for personal use.
26. Received a check for $25 from Charles Granger for interest due on his note.
28. Bought stamped envelopes for currency, $4.
29. Paid for telegrams, $1.60, currency.
30. Our bank notified us that the note of H. W. Foster, discounted on April 4, had been dishonored. The bank charged our account with the face of the note, and with protest fees, $1.20.
Paid office salaries by check, $200.
Issued check No. 96 to the petty cashier to replenish the petty cash fund.

The Petty Cash Book and the Cash Journal are to be closed. Prepare summaries to indicate the posting of the Cash Journal; bring down the balance.

Show the Petty Cash Book ready for entries to be made for May.

6. Assuming that no posting had been done from the Petty Cash Book in question 5 above and that a summary was made in the General Journal, show:

(a) The entry to be made in the General Journal.
(b) The Cash Book entry (journal form) for the check to replenish the fund.

Chapter XIII

PARTNERSHIPS

Sole proprietorship type of business organization.—There are different types of business organizations. As illustrated in this text thus far, one person may engage in business on his own behalf, in which case the type of business organization is known as a *sole proprietorship*. The profits of such a business belong to the owner alone; it is he who is singly responsible for the debts of the business, and ownership in the assets of the business vests solely in him. Not all business organizations, however, are of this type. Another type of business organization is that known as the *partnership*.

Partnership type of business organization.—Two or more persons may voluntarily engage in business and agree to combine their capital, skill, and labor, or some or all of them, and to divide the profits or to share the losses in certain proportions. In this case, the type of business organization is known as a *partnership* and is frequently referred to as a *firm*.

Partnership defined.—A partnership is a voluntary association of two or more individuals who agree to combine their capital, skill, and labor, or some or all of them, in some lawful business for profit and to share profits and losses, as such, between them.

Partnership versus sole proprietorship type of business organization.—Unlike those in the sole proprietorship type of business organization, profits of a partnership do not belong to any one person, but are divided among all the partners in accordance with the partnership agreement. No one partner, except in the case of insolvency, is singly liable for the firm debts, but all are jointly and severally liable. Nor does ownership in the assets of the business vest in any one person, but each partner is a part owner in the assets to the extent of his investment in the firm.

Nature of partnership.—A partnership is a contractual relation based upon an agreement entered into by the partners. Such an agreement may be verbal or written. Because of the misunderstandings that may arise as a result of a verbal agreement, partnership agreements should always be in writing.

Such a written agreement will, of necessity, contain many paragraphs; and since these paragraphs are usually reduced to concise statements, they are referred to as articles, and the entire agreement is made up of, and is known as, Articles of Co-partnership.

Contents of Articles of Co-partnership.—The essential articles which should be embodied in every partnership agreement are as follows:

1. Date of agreement.
2. Names of parties to the agreement, that is, the partners.
3. Purpose of the partnership.
4. Duration of partnership.
5. Amount to be contributed by each partner and the nature of the contribution, that is, whether cash or other properties are to be contributed.
6. Interest on capital.
7. Limitations on drawings against profits.
8. Salaries of partners.
9. The name of the bank which is to act as depository of the firm's funds.
10. Access to books of account.
11. Periodic closing of the books.
12. Closing of the books on the death of a partner.
13. Establishing goodwill on the death or retirement of a partner.
14. Provision for depreciation of fixed assets and customers' accounts.
15. Division of the profits.
16. Signatures of the parties to the agreement.
17. Affidavit.

Articles of Co-partnership illustrated.—The following will serve to illustrate a partnership agreement embodying the essential articles suggested in the foregoing paragraph:

Articles of Co-partnership

1–2. This agreement, entered into in the City of New York, on the second day of January, Nineteen hundred and ——, between Frank Samson, hereinafter referred to as the party of the first part, and Joseph Taylor, hereinafter referred to as the party of the second part, witnesseth as follows:

3. The parties hereby agree to form a general co-partnership for the purpose of engaging in the manufacture and sale of dresses, waists, and novelties, under the firm name of Samson & Taylor.

4. The term of the co-partnership shall be three years, unless terminated sooner by the death of one of the partners or by mutual consent.

5. The capital of the co-partnership shall consist of $60,000 cash, of which the party of the first part agrees to contribute $20,000, and the party of the second part $40,000. Such contributions are to be made at the time of the signing of the agreement.

6. Interest at the rate of 6% per annum shall be allowed on the balance of the capital accounts at the beginning of each accounting period. Such interest is to be credited to the respective drawing accounts of the partners at the close of each accounting period.

7. Each partner shall be entitled to draw (exclusive of interest) a sum not in excess of $100 monthly against the anticipated profits of the business. Interest at the rate of 6% per annum shall be charged on partners' drawings in excess of the agreed-upon amount.

8. For services in the management of said business, the partners are each entitled to a payment of $250 monthly as salary, the same to be payable on the last day of each month. Each partner agrees to devote his entire time and services to the management of the business.

9. The Textile Exchange Bank shall be the depository of the firm. All cash received shall be duly paid in, and the cash account shall be made up monthly.

10. Each partner shall have access at all times to all books and partnership documents. The books and partnership documents shall be kept continuously at the place of business, and each partner shall have the right of making entries therein or of directing that entries be made therein.

11. The balance sheet and inventory shall be made up monthly, and both shall be signed by each partner and thereafter shall be conclusive except for manifest error or fraud.

12. In the event of the death of a partner, the profits shall be determined at the end of the month in which such death occurs and the share of the deceased partner shall thereupon be ascertained. The withdrawal of the share of the deceased partner shall be gov-

erned by the conditions of the business, and his interest shall be paid out as soon as the conditions of the business will permit.

13. For the purpose of ascertaining the value of the goodwill of the business upon the death or retirement of a partner, it is hereby agreed that it shall be valued at a sum equivalent to ten times the average profits of the six months or portion thereof immediately preceding the date of death or retirement.

14. Before a division of profits shall be made, the following reserves shall be created: on all fixed property at the rate of 10% per annum; on furniture and fixtures at the rate of 12% per annum; on automobiles at the rate of 33⅓% per annum; for possible loss on customers' accounts, an amount equal to 2% of the gross sales.

15. Profits and losses shall be shared equally.

16. In Witness Whereof the said parties have hereunto set their hands and seals this second day of January, 19—.

Frank Samson (L.S.)
Joseph Taylor (L.S.)

17. In the presence of:
John F. Sullivan
Theodore Lang

State of New York } ss.
County of New York }

On this second day of January, one thousand nine hundred ——, before me personally appeared Frank Samson and Joseph Taylor, to me personally known to be the same persons described in and who executed the foregoing instrument, and they severally acknowledged to me that they executed the same.

Charles Cooper
Notary Public for New York County,
tate of New York

Partnership accounting versus sole proprietorship accounting.—As stated in a previous paragraph, in the sole proprietorship type of business organization, ownership in the assets of the business vests in one person only, that is, the proprietor. Hence, in order to record proprietorship, only one capital account need be kept in the ledger in the name of the owner.

In the partnership type of business organization, on the other hand, ownership in the assets of the business vests in two or more persons, known as *partners,* in proportion to their respective investments in the business. It will be seen, therefore, that in order properly to record each partner's share of

ownership in the assets of the business, it will be necessary to keep as many individual capital accounts as there are partners who have a claim against the assets of the business.

In so far as the accounting for these two types of business organizations is concerned, the essential difference is that in the case of the sole proprietorship type only one capital account is necessary, whereas in the case of the partnership type as many capital accounts are necessary as there are partners. The same is true of drawing accounts. Only one drawing account is essential in the case of the sole proprietorship type of business organization; whereas, in the case of the partnership type of business organization, as many drawing accounts are essential as there are partners.

Opening partnership books.—Upon the formation of a partnership, it is customary, as a matter of record, to make a written statement in the general journal to the effect that the partnership has been formed. This statement, from the accountant's point of view, should include the Articles of Co-partnership, as the agreement between the partners usually contains articles pertinent to the keeping of the books. These specify, for example, the proportion in which profits are to be divided, the rates to be used in providing for depreciation on furniture and other assets, salaries to be allowed the partners, interest to be allowed on capital, and other equally important articles about which the bookkeeper must be informed, so that he may adjust the accounts affected. Such a statement, when made in the journal, is known as a *pro-forma entry*.

Pro-forma entry illustrated.—The following will serve to illustrate a pro-forma entry for a partnership:

January 2, 19—

James Clark and Alfred Jones have this day begun business as dealers and jobbers in electrical and radio supplies at 358 North Street, New York City, N. Y., under the firm name of Clark & Jones, and have entered into the following agreement, a copy of which has been filed in the office of the County Clerk of New York County, in the City of New York, State of New York.

[Note.—A copy of the Articles of Co-partnership should be inserted here.]

After the pro-forma entry has been made in the general journal, there remain to be made the necessary opening entries recording the capital contributions of the partners.

Opening entries recording the capital contributions of the partners.—The procedure to be followed, in making the opening entries which record the capital contributions of the partners, depends upon whether the contributions consist wholly of cash or whether the contributions consist of cash and other assets—such as furniture and fixtures, accounts receivable, and merchandise—and liabilities, such as accounts payable.

If the contributions of the partners consist wholly of cash, the procedure is simple and the practice is uniform and consistent. In all such cases, entries crediting the individual partners for their cash contributions are made in the cash receipts journal. From the latter book they are posted, in the usual manner, to the proper accounts in the ledger.

When the contributions of the partners consist of cash and assets other than cash, it is customary to make entries following the pro-forma entry in the general journal, debiting the individual assets, including cash, and crediting each partner for his total investment. Practice varies as to the method of treating the cash contributions in the cash receipts journal.

One method (see Case 3, Method 1, on page 185) is to enter the cash contributions of the partners in the "Net Cash" column in the cash receipts journal as a balance. By this method, all postings are made from the general journal and no postings are made from the cash receipts journal. The other method (see Case 3, Method 2, on page 186) is to record the cash contributions of the partners in the cash receipts journal in the same manner as though cash were the only asset contributed by each partner. This procedure results in making a duplicate entry to cover the cash contributions of the partners, since the opening entries in the general journal crediting the individual partners' accounts include the cash contributions. Moreover, the procedure usually followed by this method in posting to the proper accounts in the ledger is rather awkward. It is customary to post to the capital accounts in the ledger from the general journal, and to the cash account

from the cash receipts journal; thus two journals are used for posting to effect a double entry in the accounts in the ledger.

Of the two methods, the first is to be preferred. It is more practical in that it does away with the use of two journals to effect a double entry in the accounts in the ledger.

As a general rule, it may be said that in cases where the contributions of the partners consist *wholly* of cash, the cash receipts journal should be used both for recording and for posting the cash contributions of the partners. In cases where the contributions of the partners consist of cash *and other assets,* only the general journal should be used both for recording and for posting the capital contributions of the partners.

It will be seen from the foregoing that there is no one illustration that will serve to explain the procedure which should be followed in making the necessary opening entries to record the investment of each partner in the firm, as the entries to be made depend upon the nature of the agreement and the nature of the property contributed by each partner.

The nature of the agreement and the nature of the property contributed by the partners vary, as will be seen from the following illustrations:

1. Each partner agrees to contribute a certain amount of cash immediately on the formation of the partnership. Such would be the case if neither party had been in business on his own account prior to the formation of the partnership.

2. Each partner may agree to contribute a certain amount of cash in installments. Such would be the case if the partners did not have the ready cash to contribute immediately on the formation of the partnership and, therefore, provided in the agreement to contribute in installments the amount of capital which they believed would be necessary in order to conduct the business properly.

3. Both partners may have been in business on their own account as sole proprietors and, in forming a partnership, plan to unite or consolidate their respective businesses. In this case each partner's contribution would consist of the net assets of his business. Among other items, the net assets may consist of cash, merchandise, furniture and fixtures, and customers' accounts. The liabilities may include creditors' accounts which are unpaid at the time of the formation of the partnership. These liabilities are taken over by the partnership. In such cases, it is customary to open a new set of books for the firm.

4. Under conditions similar to those mentioned above, in Case 3, the partners may agree to consolidate their respective businesses, using the books of one of the partners as the books of the firm.

5. One or both partners may place a value on his or their respective business or businesses in excess of that represented by the respective capital accounts, as shown on the balance sheet. In this case, the partner is said to be contributing an asset known as *goodwill*. Goodwill, in this case, is the term used to represent the amount contributed in excess of the value of the net assets, as shown by the capital account on the balance sheet.

6. After the partnership has been in operation for a period of time, it may be found necessary, for one or more reasons, to admit others to membership in the firm. For example, it may be necessary to provide additional capital. If, up to this time, the partnership has been successful and has made large profits, the firm is said to have established a goodwill and the incoming partner's contribution would be based, not upon the capital accounts as shown by the balance sheet, but upon the total value of the business, which, of course, would include the value of the goodwill of the business. It is customary, therefore, before admitting a new partner, to place a value upon the goodwill of the business and to record the goodwill on the books.

There are other conditions which obtain on the formation of a partnership. These, however, are not within the scope of this course.

Thus it will be seen that, in order properly to explain the recording of the investments of the partners on the books of a firm, each case must be considered separately.

Case 1.—*When each partner agrees to contribute a certain amount of cash on the formation of the partnership.*

For the purpose of illustration, let it be assumed that the following agreement exists between James Clark and Alfred Jones:

> Each partner agrees to contribute $20,000 in cash, which is to be deposited in the name of the firm immediately upon the signing of the partnership agreement, January 2, 19—.

Method.—This illustrates the use of the general journal for making the pro-forma entry and the cash journal for recording the receipt of the cash, according to Case 1. This method represents the usual practice of opening a set of books

for a firm in which the contributions of the partners consist of cash only.

General Journal, January 2, 19—

Accounts Payable	*General Ledger*	*F.*		*General Ledger*	*Accounts Receivable*
			James Clark and Alfred Jones have this day begun business as jobbers in woolens at 958 Wallace Ave., New York City, under the firm name of Clark & Jones. Each partner has contributed $20,000 cash, which was deposited in the North Side National Bank in the name of the firm. (See entry in cash journal, page 2.) *Articles of Co-partnership* [Note.—The Articles of Co-partnership should be inserted at this point.]		

The entries in the cash journal follow:

Cash Receipts

Date		*F.*	*Accounts Credited*	*Explanation*	*Net Cash*	*Accounts Receivable*	*Discount on Sales*	*General Ledger*
19—								
Jan.	2		James Clark, Capital		20,000 00			20,000 00
	2		Alfred Jones, Capital		20,000 00			20,000 00

Case 2.—*When each partner agrees to contribute a certain amount of cash in installments.*

For the purpose of illustration, let it be assumed that the following agreement exists between James Clark and Alfred Jones:

Each partner agrees to contribute $20,000 in cash, payable in four quarterly installments of $5,000 each. The first installment is to be paid on the beginning of business, January 2, 19—, and an equal installment is to be paid on April 1, July 1, and October 1, 19—.

Method 1.—This illustrates the use of the general journal for making the pro-forma entry and the cash journal for recording the receipts of the cash, according to Case 2.

General Journal, January 2, 19—

Accounts Payable	*General Ledger*	*F.*		*General Ledger*	*Accounts Receivable*
			James Clark and Alfred Jones have this day begun business as jobbers in woolens at 958 Wallace Ave., New York City, under the firm name of Clark & Jones. Each partner has agreed to contribute $20,000 cash in four equal quarterly installments of $5,000 each. The first installment was paid this day. (See cash journal, page 2.)		
			Articles of Co-partnership [Note.—The Articles of Co-partnership should be inserted at this point.]		

The entries in the cash journal follow:

Cash Receipts

Date		*F.*	*Accounts Credited*	*Explanation*	*Net Cash*	*Accounts Receivable*	*Discount on Sales*	*General Ledger*
19—								
Jan.	2		James Clark, Capital		5,000 00			5,000 00
	2		Alfred Jones, Capital		5,000 00			5,000 00

A Balance Sheet prepared from the accounts open in the ledger at this point follows:

CLARK & JONES
Balance Sheet, January 2, 19—

Assets		*Liabilities and Capital*	
Cash	$10,000	James Clark, Capital	$5,000
		Alfred Jones, Capital	5,000
Total Assets	$10,000	Total Capital	$10,000

Method 2.—This illustrates the use of the "Contribution" account, in Case 2.

When the agreement provides that cash contributions of the partners are to be made in installments, it is desirable, as between the partners themselves, that this information appear on the books and be made available to them. This is possible only by opening a Contribution account for each partner in addition to the usual capital accounts, as follows:

General Journal, January 2, 19—

Accounts Payable	*General Ledger*	*F.*		*General Ledger*	*Accounts Receivable*
			James Clark and Alfred Jones have this day begun business as jobbers in woolens at 958 Wallace Ave., New York City, under the firm name of Clark & Jones. Each partner has agreed to contribute $20,000 cash in four equal quarterly installments. The first installment was paid this day. (See entry below.)		
			Articles of Co-partnership		
			[Note: The articles of co-partnership should be inserted at this point.]		
	20,000 00		James Clark, Contribution		
	20,000 00		Alfred Jones, Contribution		
			James Clark, Capital.....	20,000 00	
			Alfred Jones, Capital.....	20,000 00	
			To record the agreed-upon contributions.		

The entry in the cash journal follows:

Cash Receipts

Date	*F.*	*Accounts Credited*	*Explanations*	*Net Cash*	*Accounts Receivable*	*Discount on Sales*	*General Ledger*
19—							
Jan. 2		James Clark, Contribution		5,000 00			5,000 00
2		Alfred Jones, Contribution		5,000 00			5,000 00

The ledger accounts would appear as follows:

Cash

19— Jan.	2	Contributions	J. 1	10,000	00									

James Clark, Contribution

19— Jan.	2	Capital	J. 1	20,000	00	19— Jan.	2	Cash	J. 1	5,000	00

James Clark, Capital

						19— Jan.	2	Contribution		20,000	00

Alfred Jones, Contribution

19— Jan.	2	Capital	J. 1	20,000	00	19— Jan.	2	Cash	J. 1	5,000	00

Alfred Jones, Capital

						19— Jan.	2	Contribution	J. 1	20,000	00

A Trial Balance of the ledger follows:

CLARK & JONES
Trial Balance, January 2, 19—

1	Cash	10,000	00				
2	James Clark, Contribution	15,000	00				
3	James Clark, Capital			20,000	00		
4	Alfred Jones, Contribution	15,000	00				
5	Alfred Jones, Capital			20,000	00		
		40,000	00	40,000	00		

A Balance Sheet prepared from accounts open in the ledger at this point follows:

CLARK & JONES
Balance Sheet, January 2, 19—

Assets		*Liabilities and Capital*		
Cash	$10,000	James Clark, Capital.	$20,000	
		To be contributed..	15,000	
		Contributed to date..		$ 5,000
		Alfred Jones, Capital.	20,000	
		To be contributed..	15,000	
		Contributed to date..		5,000
Total assets	$10,000	Total Capital		$10,000

Let us compare the Balance Sheet prepared according to Method 1 with that prepared according to Method 2. This will disclose the fact that the use of a contribution and a capital account for each partner makes it possible to prepare from the ledger a balance sheet showing not only the amount actually contributed by each partner, but also the amount which remains to be contributed by each partner in accordance with the agreement.

Only in one instance, namely, where contributions are made in installments, is it necessary to use the Contribution account to show full particulars in the balance sheet. There is no need of the Contribution account on opening a set of books for a firm where the agreed-upon contributions are made immediately on the opening of the business.

Case 3.—*When two sole proprietors unite their business properties on the formation of a partnership, opening a new set of books.*

For the purpose of illustration, let it be assumed that James Clark and Alfred Jones have entered into the following agreement:

It is agreed that the contribution of each partner shall consist of the assets and liabilities of the business as now conducted by him and as shown on their respective balance sheets dated January 2, 19—.

The balance sheets at January 2, 19—, are as follows:

JAMES CLARK
Balance Sheet, January 2, 19—

Assets		*Liabilities and Capital*	
Cash	$ 5,500	Notes Payable	$ 3,000
Accounts Receivable	21,000	Accounts Payable	14,000
Merchandise Inventory	16,000	Total Liabilities	17,000
Furniture and Fixtures	1,500	James Clark, Capital	30,000
Delivery Equipment	3,000		
Total Assets	$47,000	Total Liabilities & Capital	$47,000

ALFRED JONES
Balance Sheet, January 2, 19—

Assets		*Liabilities and Capital*	
Cash	$ 8,000	Accounts Payable	$20,000
Notes Receivable	4,500	Bond and Mortgage Payable	12,000
Accounts Receivable	22,500	Total Liabilities	32,000
Merchandise Inventory	25,000	Alfred Jones, Capital	60,000
Furniture and Fixtures	2,000		
Land and Building	30,000		
Total Assets	$92,000	Total Liabilities & Capital	$92,000

Method 1.—This illustrates the opening of a new set of books; also the use of the general journal for making postings and entering the cash as "Balance" in the Net Cash column in the cash receipts journal.

It should be noted that, by this method, all postings are made from the general journal and no postings are made from the cash journal. This plan has the advantage of making provision for the opening of the Cash account in the ledger at once, just as all other accounts named in the opening entry, or entries, will be opened at once. Otherwise, no Cash account would appear in the ledger until the end of the first month, when the summary entry for the cash receipts journal would provide for a debit to the Cash account for the total of the Net Cash column.

Under Method 2, illustrated on page 186, the Cash account would not appear in the ledger until after the posting of the summary entry for the cash receipts journal, as explained above. Nor could a Trial Balance be taken from the ledger, after posting the opening entries, as should be possible after opening a set of books.

General Journal, January 2, 19—

Accounts Payable	*General Ledger*	*F.*		*General Ledger*	*Accounts Receivable*
			[Note.—These entries would follow the pro-forma entry and the Articles of Co-partnership.]		
	5,500 00		Cash		
	21,000 00		Accounts Receivable		
	16,000 00		Merchandise Inventory		
	1,500 00		Furniture and Fixtures		
	3,000 00		Delivery Equipment.....		
			Notes Payable.....	3,000 00	
			Accounts Payable.....	14,000 00	
			James Clark, Capital.....	30,000 00	
			To record the investment of James Clark in the firm.		
	8,000 00		Cash		
	4,500 00		Notes Receivable		
	22,500 00		Accounts Receivable		
	25,000 00		Merchandise Inventory		
	2,000 00		Furniture and Fixtures		
	30,000 00		Land and Building		
			Accounts Payable.....	20,000 00	
			Bond and Mortgage Payable	12,000 00	
			Alfred Jones, Capital.....	60,000 00	
			To record the investment of Alfred Jones in the firm.		

The total cash, in this case \$5,500 + \$8,000, or \$13,500 should be entered as the "balance" in the Net Cash column in the cash receipts journal, as follows:

Cash Receipts

Date	*F.*	*Accounts Credited*	*Explanation*	*Net Cash*	*Accounts Receivable*	*Discount on Sales*	*General Ledger*
19— Jan. 2		Balance		13.500 00			

Method 2.—This illustrates the opening of a new set of books; also the use of the general journal and the cash journal for making postings to accounts in the ledger.

It should be noted that the items checked (√) are not posted; that the posting to the *Cash* account in the ledger is made in total, as usual, from the Net Cash column in the cash receipts journal; and that postings to the *Capital* accounts in the ledger are made from the general journal.

General Journal, January 2, 19—

Accounts Payable	*General Ledger*	*F.*		*General Ledger*	*Accounts Receivable*
			[Note.—These entries would follow the pro-forma entry and the Articles of Co-partnership.]		
	5,500 00	√	Cash		
	21,000 00		Accounts Receivable		
	16,000 00		Merchandise Inventory		
	1,500 00		Furniture and Fixtures		
	3,000 00		Delivery Equipment		
			Notes Payable	3,000 00	
			Accounts Payable	14,000 00	
			James Clark, Capital	30,000 00	
			To record the investment of James Clark in the firm.		
	8,000 00	√	Cash		
	4,500 00		Notes Receivable		
	22,500 00		Accounts Receivable		
	25,000 00		Merchandise Inventory		
	2,000 00		Furniture and Fixtures		
	30,000 00		Land and Building		
			Accounts Payable	20,000 00	
			Bond and Mortgage Payable	12,000 00	
			Alfred Jones, Capital	60,000 00	
			To record the investment of Alfred Jones in the firm.		

The entries in the cash journal follow:

Cash Receipts

Date	*F.*	*Accounts Credited*	*Explanations*	*Net Cash*	*Accounts Receivable*	*Discount on Sales*	*General Ledger*
19—							
Jan. 2	√	James Clark, Capital		5,500 00			5,500 00
2	√	Alfred Jones, Capital		8,000 00			8,000 00

It will be seen that, of the two methods illustrated, Method 1 is the more simple and practical. It is to be preferred, since it requires the use of only one journal (the general journal) for making a double entry in the accounts in the ledger.

A Trial Balance and the opening Balance Sheet prepared at this point follow:

CLARK & JONES
Trial Balance, January 2, 19—

1	Cash	13,500	00		
2	Notes Receivable	4,500	00		
3	Accounts Receivable	43,500	00		
4	Merchandise Inventory	41,000	00		
5	Furniture and Fixtures	3,500	00		
6	Delivery Equipment	3,000	00		
7	Land and Building	30,000	00		
8	Notes Payable			3,000	00
9	Accounts Payable			34,000	00
10	Bond and Mortgage Payable			12,000	00
11	James Clark, Capital			30,000	00
12	Alfred Jones, Capital			60,000	00
		139,000	00	139,000	00

CLARK & JONES
Balance Sheet, January 2, 19—

Assets		*Liabilities*	
Cash	$13,500	Notes Payable	$ 3,000
Notes Receivable	4,500	Accounts Payable	34,000
Accounts Receivable	43,500	Bond and Mortgage Payable	12,000
Merchandise Inventory	41,000	Total Liabilities	49,000
Furniture and Fixtures	3,500	*Proprietorship*	
Delivery Equipment	3,000	James Clark, Cap. $30,000	
Land and Buildings	30,000	Alfred Jones, Cap. 60,000	
		Net Worth	90,000
Total Assets	$139,000	Total Liabilities and Prop.	$139,000

Case 4.—*When two sole proprietors consolidate their respective businesses, using the books of one of the sole proprietors as the books of the firm.*

For the purpose of illustration, let it be assumed that the following agreement exists between James Clark and Alfred Jones:

It is agreed that the business of Alfred Jones be merged with that of James Clark, under the firm name of Clark & Jones and that the books of James Clark be used as the books of the firm. It is further agreed that the contribution of each partner shall consist of the assets and liabilities of the business as now conducted by him and as shown on their respective balance sheets dated January 2, 19—.

The Balance Sheets at January 2, 19—, are as follows:

JAMES CLARK
Balance Sheet, January 2, 19—

Assets		*Liabilities and Capital*	
Cash	$ 5,500	Notes Payable	$ 3,000
Accounts Receivable	21,000	Accounts Payable	14,000
Merchandise Inventory	16,000	Total Liabilities	17,000
Furniture and Fixtures	1,500	James Clark, Capital	30,000
Delivery Equipment	3,000		
Total Assets	$47,000	Total Liabilities and Capital	$47,000

ALFRED JONES
Balance Sheet, January 2, 19—

Assets		*Liabilities and Capital*	
Cash	$ 8,000	Accounts Payable	$20,000
Notes Receivable	4,500	Bond and Mortgage Payable	12,000
Accounts Receivable	22,500	Total Liabilities	32,000
Merchandise Inventory	25,000	Alfred Jones, Capital	60,000
Furniture and Fixtures	2,000		
Land and Building	30,000		
Total Assets	$92,000	Total Liabilities and Capital	$92,000

The entries to be made in this case are identical to those illustrated in Case 3. It should be noted that the entry recording James Clark's contribution would not be posted; but, instead, each item in the general journal making up James Clark's contribution would be checked (✓) as the items already appear in the ledger of James Clark, whose books are being used as the books of the firm.

It should also be noted that the Trial Balance and the opening Balance Sheet of the firm would be the same as shown in Case 3.

Case 5.—*When both partners place a value upon their businesses in excess of the value of the net assets, as shown by the capital accounts on their respective balance sheets.*

For the purpose of illustration, let it be assumed that the agreement between James Clark and Alfred Jones is as follows:

It is agreed that the contribution of each partner shall consist of the assets and liabilities of the business as now conducted by him and as shown on their respective balance sheets, dated January 2, 19—, and that a value of $36,000 and $72,000 be placed, respectively, on the business of James Clark and Alfred Jones.

The balance sheets at January 2, 19— are as follows:

JAMES CLARK
Balance Sheet, January 2, 19—

Assets		*Liabilities and Capital*	
Cash	$ 5,500	Notes Payable	$ 3,000
Accounts Receivable	21,000	Accounts Payable	14,000
Merchandise Inventory	16,000	Total Liabilities	17,000
Furniture and Fixtures	1,500	James Clark, Capital	30,000
Delivery Equipment	3,000		
Total Assets	$47,000	Total Liabilities and Capital	$47,000

ALFRED JONES
Balance Sheet, January 2, 19—

Assets		*Liabilities and Capital*	
Cash	$ 8,000	Accounts Payable	$20,000
Notes Receivable	4,500	Bond and Mortgage Payable	12,000
Accounts Receivable	22,500	Total Liabilities	32,000
Merchandise Inventory	25,000	Alfred Jones, Capital	60,000
Furniture and Fixtures	2,000		
Land and Building	30,000		
Total Assets	$92,000	Total Liabilities and Capital	$92,000

It should be noted that the capital of the partners, as shown on their respective balance sheets, is as follows: Clark, $30,000, and Jones, $60,000; and that values of $36,000 and $72,000, respectively, have been placed on the businesses of Clark and Jones. Hence, Clark may be said to be contributing

an asset, goodwill, valued at $6,000; and Jones likewise is contributing an asset, goodwill, valued at $12,000.

Method.—This illustrates the opening of a set of books for a partnership where the contributions of each partner include goodwill; also the method by which postings are made only from the general journal.

The entries to be made in the journal follow:

General Journal, January 2, 19—

Accounts Payable	*General Ledger*	*F.*		*General Ledger*	*Accounts Receivable*
			[Note.—These entries would follow the pro-forma entry, including the Articles of Co-partnership.]		
	5,500 00		Cash		
	21,000 00		Accounts Receivable		
	16,000 00		Merchandise Inventory		
	1,500 00		Furniture and Fixtures		
	3,000 00		Delivery Equipment		
	6,000 00		Goodwill		
			Notes Payable	3,000 00	
			Accounts Payable	14,000 00	
			James Clark, Capital	36,000 00	
			To record the agreed upon investment of James Clark in the firm. (For further particulars, see Articles of Co-partnership.)		
	8,000 00		Cash		
	4,500 00		Notes Receivable		
	22,500 00		Accounts Receivable		
	25,000 00		Merchandise Inventory		
	2,000 00		Furniture and Fixtures		
	30,000 00		Land and Buildings		
	12,000 00		Goodwill		
			Accounts Payable	20,000 00	
			Bonds and Mortgage Payable	12,000 00	
			Alfred Jones, Capital	72,000 00	
			To record the agreed upon investment of Alfred Jones in the firm. (For further particulars, see Articles of Co-partnership.)		

The entries in the cash journal follow:

Cash Receipts

Date	F.	Accounts Credited	Explanations	Net Cash	Accounts Receivable	Discount on Sales	General Ledger
19— Jan. 2		Balance		13,500 00			

A Trial Balance and the opening Balance Sheet prepared at this point follow:

CLARK & JONES
Trial Balance, January 2, 19—

1	Cash	13,500 00	
2	Notes Receivable	4,500 00	
3	Accounts Receivable	43,500 00	
4	Merchandise Inventory	41,000 00	
5	Furniture and Fixtures	3,500 00	
6	Delivery Equipment	3,000 00	
7	Land and Building	30,000 00	
8	Goodwill	18,000 00	
9	Notes Payable		3,000 00
10	Accounts Payable		34,000 00
11	Bond and Mortgage Payable		12,000 00
12	James Clark, Capital		36,000 00
13	Alfred Jones, Capital		72,000 00
		157,000 00	157,000 00

CLARK & JONES
Balance Sheet, January 2, 19—

Assets		*Liabilities*	
Cash	$13,500	Notes Payable	$ 3,000
Notes Receivable	4,500	Accounts Payable	34,000
Accounts Receivable	43,500	Bond and Mortgage Payable	12,000
Merchandise Inventory	41,000	Total Liabilities	49,000
Furniture and Fixtures	3,500	*Proprietorship*	
Delivery Equipment	3,000	James Clark, Cap. $36,000	
Land and Building	30,000	Alfred Jones, Cap. 72,000	
Goodwill	18,000	Net Worth	108,000
Total Assets	$157,000	Total Liabilities and Prop.	$157,000

Case 6.—*Admitting a partner as a member of a firm.*

For the purpose of illustration, let it be assumed that the agreement made between Clark & Jones and Edward Smith is as follows:

It is agreed that Edward Smith is to contribute, on January 2, 19—, $80,000 cash for a one-third capital interest in the business of Clark & Jones. It is further agreed that profits are to be shared equally.

Note.—Profits, as between Clark and Jones, were shared equally.

The Balance Sheet of the firm at December 31, 19— is as follows:

CLARK & JONES
Balance Sheet, December 31, 19—

Assets		*Liabilities*	
Cash	$15,000	Notes Payable	$10,000
Notes Receivable	8,000	Accounts Payable	22,000
Accounts Receivable	45,500	Bond and Mortgage Payable	12,000
Merchandise Inventory	40,000	Total Liabilities	44,000
Furniture and Fixtures	4,000	*Proprietorship*	
Delivery Equipment	3,000	James Clark, Cap. $42,000	
Land and Building	30,000	Alfred Jones, Cap. 78,000	
Goodwill	18,000	Net Worth	120,000
Supplies Inventory	500		
Total Assets	$164,000	Total Liabilities and Prop.	$164,000

Statement

The total capital, or net worth, after admitting Smith should be		$240,000
The Balance Sheet of Clark & Jones shows a net worth of	$120,000	
Adding Smith's contribution of	80,000	
would make the total net worth		200,000
Therefore, the goodwill, in addition to the goodwill which already appears on the books, must be		$ 40,000

Method.—This illustrates the recording of goodwill on admission of a partner in a going firm; also the use of the cash journal for recording the amount of cash contributed and for making postings to accounts in the ledger.

General Journal, January 2, 19—

Accounts Payable	General Ledger	F.		General Ledger	Accounts Receivable
			[Note.—A record of the change in the partnership agreement should precede the following entry:]		
	40,000 00		Goodwill		
			James Clark, Capital	20,000 00	
			Alfred Jones, Capital	20,000 00	
			To record the additional value placed upon the goodwill of the business on the admission of Edward Smith as a partner, and to credit the partners' accounts on the profit and loss sharing ratio.		

The entries in the cash journal follow:

Cash Receipts

Date	F.	Accounts Credited	Explanations	Net Cash	Accounts Receivable	Discount on Sales	General Ledger
19—							
Jan. 2		Balance		15.000 00			
2		Edward Smith, Capital		80,000 00			80,000 00

A Trial Balance of the ledger and the opening Balance Sheet of the new firm follow:

CLARK & JONES
Trial Balance, January 2, 19—

1	Cash	95,000 00	
2	Notes Receivable	8,000 00	
3	Accounts Receivable	45,500 00	
4	Merchandise Inventory	40,000 00	
5	Furniture and Fixtures	4,000 00	
6	Delivery Equipment	3,000 00	
7	Land and Building	30,000 00	
8	Goodwill	58,000 00	
9	Supplies Inventory	500 00	
10	Notes Payable		10,000 00
11	Accounts Payable		22,000 00
12	Mortgage Payable		12,000 00
13	James Clark, Capital		62,000 00
14	Alfred Jones, Capital		98,000 00
15	Edward Smith, Capital		80,000 00
		284,000 00	284,000 00

CLARK & JONES
Balance Sheet, January 2, 19—

Assets		*Liabilities*		
Cash	$95,000	Notes Payable		$10,000
Notes Receivable	8,000	Accounts Payable		22,000
Accounts Receivable	45,500	Mortgage Payable		12,000
Merchandise Inventory	40,000	Total Liabilities		44,000
Furniture and Fixtures	4,000	*Proprietorship*		
Delivery Equipment	3,000	James Clark, Cap.	$62,000	
Land and Building	30,000	Alfred Jones, Cap.	98,000	
Goodwill	58,000	Edward Smith, Cap.	80,000	
Supplies Inventory	500	Net Worth		240,000
Total Assets	$284,000	Total Liabilities and Prop.		$284,000

Review Questions

1. Give a definition of a partnership.

2. Name another common type of business organization.

3. What is meant by the statement that "a partnership is a contractual relationship"?

4. Must a partnership contract be in writing?

5. What is the name of the written contract between partners?

6. What is the advantage of a written partnership agreement?

7. Name the chief items which are ordinarily included in the Articles of Co-partnership.

8. If a ledger were placed before you, how could you tell whether it had been kept for a sole owner or for a partnership?

9. How does the Balance Sheet of a proprietorship differ from that of a sole proprietor? How does the Statement of Profit and Loss differ?

10. Does one partner own any particular assets in the partnership?

11. In what respect do opening entries on partnership books differ from the opening entries for a sole owner?

12. What is the purpose of the "Contribution account" on partnership books?

Exercises

1. Frank Watson and Henry Mills form a partnership on July 1, 19—. Watson invests cash, $6,000, a stock of merchandise worth $1,800, and a delivery truck valued at $800. Mills invests cash to make his investment equal to that of Watson.

Show the opening journal entry or entries. How should the cashbook be started at July 1?

2. On April 1, 19—, J. R. Sanderson and L. C. Hartley form a partnership. Sanderson's investment consists of cash, $1,450; notes receivable, $2,000; merchandise inventory, $3,000; furniture and fixtures, $350; a motor truck valued at $1,000, and a stock of office supplies worth $30. He has a promissory note outstanding for $1,100, which the firm assumes.

Hartley invests a stock of merchandise worth $1,900; notes receivable, $1,200, and cash sufficient to make his investment equal to Sanderson's. He has no liabilities.

Make the opening journal entries. What balance should be entered in the cashbook at April 1?

3. James Liddy and George Taylor formed a partnership on September 15, 19—. Liddy invests cash $8,000; land and buildings valued at $12,000, and a stock of merchandise worth $5,000.

Taylor is to invest $15,000 in cash. He is unable to raise this amount on September 15. He pays in $10,000 cash and agrees to contribute the remaining $5,000 on October 1.

(a) Show opening entries in both general journal and cashbook, making use of a contribution account for George Taylor.

(b) What entry should be made on October 1 upon payment, by George Taylor, of the balance of his investment, $5,000?

4. H. P. Williams and W. A. Roberts, who were competitors, formed a partnership on March 20, 19—, under the firm name of Williams & Roberts. Williams had the following assets and liabilities: cash, $2,167.50; notes receivable, $1,600; accounts receivable, (F. W. Barber, $467.50, and R. J. Scott, $635.80); merchandise inventory, $3,500; furniture and fixtures, $450; delivery equipment, $900; notes payable, $1,800; accounts payable, (Brown & Co., $850, and King & King, $900).

Roberts' assets and liabilities were: cash, $1,200; notes receivable, $2,100; accounts receivable, (L. E. Burt, $525, and P. W. Ernes, $600); merchandise inventory, $2,800; notes payable, $1,500; accounts payable, (N. C. Hart, $500, and W. D. Harper, $750). Roberts invests additional cash sufficient to make his investment equal to that of Williams.

(a) Make the necessary entries in the general journal to open the partnership books. Assume that subsidiary ledgers and controlling accounts are to be operated.

(b) What balance should be entered in the cashbook?

5. On August 1, 19—, R. L. Raines, who has been conducting a wholesale leather business, entered into a partnership with J. E. Adams, under the firm name of Adams & Raines. The investments of the partners are to be equal. The firm is to assume the liabilities of R. L. Raines.

Raines turns over to the partnership the following assets and liabilities: cash, $5,400; merchandise inventory, $10,500; store fixtures, $850; insurance prepaid, $160; accounts receivable, (Lane & Sons, $700, and Wheat & Co., $2,500); notes receivable (a three months' interest-bearing note of H. P. Clark for $1,500, dated July 2; accrued interest to date, $7.50); accounts payable, (B. C. Ross, $1,400, and R. E. Cole, $600).

J. E. Adams invests D. O. King's note for $6,000, dated July 20 at three months, with interest at 6% (accrued interest to August 1 to be computed); and cash to equalize the partners' investments.

(a) Show the opening general journal entries (assume that separate ledgers are to be kept for customers and creditors).

(b) What cash balance should be entered at August 1?

6. On November 1, 19—, the balance sheet of M. W. Guest, a dealer in hardware, appeared as follows:

M. W. GUEST
Balance Sheet, November 1, 19—

Assets		*Liabilities*	
Cash	$4,000.00	Accounts Payable	$7,500.00
Merchandise Inventory	12,000.00		
Accounts Receivable	6,000.00	*Capital*	
Store Fixtures	1,000.00	M. W. Guest, Net Worth	15,500.00
	$23,000.00		$23,000.00

Guest forms a partnership with W. R. Simons, under the firm name of Simons & Guest. It is agreed that the new firm shall take over the assets and assume the liabilities of M. W. Guest; and in consideration of the fact that he has an established business, Guest is to be credited with $20,000 for his total investment.

W. R. Simons is to invest real estate (land and building) valued at $15,000 and cash to equalize the partners' investments. New books are to be opened.

(a) Make the opening entries in the general journal.

(b) What is the cash balance at the time of opening the books?

7. Frank Gardner closes his books at April 30, 19—, and finds his net capital to be $13,750. On May 1, Thomas Earle is admitted as an equal partner upon a contribution of cash, $15,000, for a one-half interest.

Show the necessary entries, journal form.

8. S. R. Atkins and H. O. Daly are competitors in the retail clothing business. They decide to form a partnership and to continue under the name of Atkins & Daly. The following balance sheets show the condition of their respective businesses on June 30, 19—:

S. R. ATKINS
Balance Sheet, June 30, 19—

Assets		*Liabilities*	
Cash	$5,200.00	Accounts Payable	$3,000.00
Accounts Receivable	4,100.00	Notes Payable	2,200.00
Merchandise Inventory	6,350.00	Total Liabilities	$5,200.00
Store Fixtures	1,200.00		
		Capital	
		S. R. Atkins, Net Worth	11,650.00
	$16,850.00		$16,850.00

H. O. DALY
Balance Sheet, June 30, 19—

Assets		*Liabilities*	
Cash	$4,000.00	Notes Payable	$1,850.00
Accounts Receivable	2,600.00	Accounts Payable	3,200.00
Merchandise Inventory	7,500.00	Total Liabilities	$5,050.00
Store Fixtures	1,000.00		
Delivery Truck	900.00	*Capital*	
		H. O. Daly, Net Worth	10,950.00
	$16,000.00		$16,000.00

The partnership takes over the assets and assumes the liabilities of S. R. Atkins and H. O. Daly on July 1. It is agreed that each partner shall receive a credit of $12,000 for his former business.

(a) Show the opening entries in the general journal.

(b) Show the Balance Sheet of Atkins and Daly at July 1.

9. For this question, use a general journal, a purchase journal, a sales journal, and a cashbook. Columns required in the general journal are: *debit side*—Notes Receivable, Accounts Payable, and General Ledger; *credit side*—General Ledger, Accounts Receivable, and Notes Payable. The cashbook is to have the following columns: *receipts side*—Net Cash, Accounts Receivable, Sales Discounts, General Ledger; *payments side*—Net Cash, Accounts Payable, Purchase Discounts, General Ledger. All original entries are to have sufficient explanations to make the records clear.

On May 1, 19—, R. M. Knowles and A. F. Hooper join as equal partners in the purchase of the wholesale dry goods business formerly conducted by Brown & Steele. Brown & Steele execute a bill of sale in which appear the following assets and liabilities:

Merchandise, $11,314.57; furniture and fixtures, $1,215; notes receivable (schedule A), $975; accounts receivable, $5,570; accounts payable, $3,495.80.

Schedule A—Notes Receivable

30-day interest-bearing note dated April 4, 19—, William G. Barton, maker, $525.

90-day note, dated April 15, 19—, Robert Scott & Co., maker, $450.

In addition, the bill of sale provides that Brown & Steele are to receive $2,000 for the goodwill of the business.

Knowles & Hooper make settlement by a cash payment of $12,578.77 and a six months' note dated May 1, and bearing interest at 6%, for the remainder of the purchase price.

(a) As bookkeeper for the firm, make the opening journal entry required in the above transaction.

(b) Record, with sufficient explanations, the following selected transactions:

May 1. Knowles and Hooper each make an additional cash investment of $2,000. This cash has been deposited in the First National Bank, at which all banking business will be done. All cash received will be deposited on the day received and all payments, unless otherwise specified, will be made by check.

1. Paid Elmer Truitt for repainting signs, $25.

2. Gave check for $50 to petty cashier to be used in making petty cash payments during the month.

2. Received from Crawford & Son, Ilion, N. Y., a check in payment of bill of April 15, for $550, less a discount of 2%.

3. Received from Boyd & Snyder, Albany, N. Y., terms 15-day acceptance, an invoice of merchandise amounting to $1257.36. Their draft dated May 2, and payable at First National Bank was accepted and returned to them.

4. Made payments by bank draft as follows: William Brady for invoice of April 25, $840.27, less 3%; West & Co., for invoice of April 30, $940.25, less 5%. Paid exchange on drafts 55c.

4. Sold to Quirk & Olney, Amsterdam, N. Y., terms one-half cash, balance 15-day note, an invoice of merchandise amounting to $950. Their check and note dated to-day have been received.

4. Paid insurance premium, $30.50.

4. Received a check from William G. Barton in payment of his note and interest due to-day.

5. Received from H. G. Klennert, terms, 2/10, n/30, an invoice of merchandise amounting to $218.95.

6. Paid freight on goods purchased to date, $25.90.

10. Received a letter from Quirk & Olney, stating that in our invoice of May 4 they have found a few articles not up to the standard and asking us to make them an allowance of $50. Agreeing to this, we indorse $50 as part payment on the note of May 4.

13. Sold L. M. Plunkett, Oswego, N. Y., terms, 2/10, n/30, an invoice of merchandise amounting to $1,147.30.

13. Sent check to H. G. Klennert in payment of his invoice of May 5, less the discount.

May 13. Discounted Robert Scott & Co.'s note of April 15 at First National Bank, and received credit for the proceeds.

15. Made cash sales amounting to $345.90.

15. Paid office salaries, $75.

18. Received notice from First National Bank that our acceptance in favor of Boyd & Snyder has been paid and charged to our account.

19. Received from Quirk & Olney a check in payment of the balance due on their note of May 4.

20. Robert Lear, one of our regular customers, recently remitted to us a check in payment of a bill amounting to $358.90. He neglected at the time to deduct from his remittance the 2% discount to which he was entitled and he now calls our attention to the oversight. We credit him for the amount of the discount and send him a credit memorandum.

20. Made cash sales amounting to $215.40.

22. Hill & Warren, dealers in office supplies, send in the following bill for goods furnished to date: 1 typewriter, $75; 1 office desk and chair, $45; paper baskets, ink stands, etc., $15. We credit their account for the amount of the bill.

31. The petty cashier presents vouchers for the following cash payments made by him:

Postage and Stationery	$19.50
Cleaning Offices	5.00
Messenger Boy	2.50
Telegrams	7.95
	$34.95

Issued a check to restore the petty cash fund to its original amount.

(c) Foot and rule the books of original entry and indicate how footings should be posted. (Do not post.)

10. M. J. Phelps, wholesale dealer in dry goods, closes his books at the end of November, 19—, and finds that his assets and liabilities are as follows:

Assets: Cash on deposit in Bank of Commerce, $1,298.16; merchandise as per inventory, $12,906.18; notes receivable,

$2,496.24; accounts receivable, $4,875.50; furniture and fixtures, $895; accrued interest on notes receivable, $4.83.

Liabilities: Notes payable, $1,500; accounts payable, $3, 687.43; interest accrued on notes payable, $1.28.

Among the assets are the following:

Notes Receivable

An interest-bearing note dated Nov. 20, payable in one month, Samuel Barker, maker, $1,000.

A 60-day note dated Nov. 15, R. M. Peters, maker, $525.

Accounts Receivable

L. M. Lester, Schenectady, N. Y., $840 (invoice dated Nov. 21, terms, 2/10, n/30).

A. K. Dunning, Buffalo, N. Y., $945.16 (invoice dated May 1, terms, 3/10, n/30).

Among the liabilities are the following:

Notes Payable

30-day interest-bearing note dated Nov. 20, in favor of Ward & Howe, Syracuse, N. Y., $700.

Three-months note dated Nov. 1, in favor of the Bank of Commerce, Albany, N. Y., $800.

Accounts Payable

Francis Bros., N. Y., $1,525 (invoice dated Oct. 15, terms, 2/30, n/60).

Howard & Jones, Rochester, N. Y., $1,422.23 (invoice dated Nov. 25, terms, 1/20, n/60).

Edward & Hemming, Watertown, N. Y., $740.20 (invoice dated Nov. 30, terms n/30).

On Dec. 1, Phelps admits William Harrison as an equal partner, the new firm to be known as Phelps & Harrison. Harrison invests an amount equal to Phelps' net investment, paying one-half in cash and giving his two-months note, dated Dec. 1, for the balance.

Assuming that a new set of books is to be opened, make the necessary entries in the general journal. (Separate ledgers for customers and creditors, controlled through the general ledger, are to be kept.)

Chapter XIV

PARTNERSHIPS—Continued

Operation of a Partnership

Recording the business transactions of a partnership.—The bookkeeper who is familiar with the books, the accounts, and the methods employed in recording the business transactions of a sole proprietor should experience no difficulty in recording the business transactions of a partnership. The procedure is the same in either case, except that in the case of a partnership there may be need of some accounts in addition to those commonly kept in the case of a sole proprietor. As has already been explained in the case of a partnership, a separate capital and drawing (or personal) account must be kept in the ledger for each partner. Also commonly found on the books of a partnership are accounts such as "Salaries of Partners," "Interest on Partners' Loans," "Partners' Loans Payable," and "Interest on Partners' Capital." Some of these accounts require explanation in so far as they affect the recording of the business transactions of a partnership.

Salaries of partners.—The partnership agreement usually provides for the allowance to be made each partner for salary. Salaries are usually payable periodically, that is, weekly, semimonthly, or monthly. In partnerships, however, it is quite common for the individual partners, whenever the need for cash arises, to draw arbitrary amounts of cash against salary, interest on loans, and anticipated profits. Because of this practice, it is customary for the bookkeeper to use the drawing or personal accounts of the partners for recording amounts owing to them and amounts drawn by them. Thus, whenever salary or interest payments are due, the bookkeeper makes an entry in the general journal as follows:

Salaries of Partners
    Drawing or Personal

Interest on Partners' Loans
    Drawing or Personal

In this case, all drawings of the partners are recorded by a debit entry to the respective drawing or personal accounts of the partners. Expressed in journal form, this entry would be as follows:

Drawing or Personal
    Cash

Although it is desirable to use the drawing or personal accounts of the partners for recording amounts owing to them and drawn by them, this procedure is not always followed.

In some firms, it is the practice of the partners to receive payment of salaries and interest on loans at regular periods. In such cases, the entries commonly made in the cash payments journal, but expressed here in journal form, are as follows:

Salaries of Partners
    Cash

Interest on Partners' Loans
    Cash

The Salaries of Partners account is an expense account. In closing the ledger, the balance is closed into the Profit and Loss account.

Partners' Loans Payable accounts.—If a partner advances money to the firm with the understanding that the amount advanced is to be repaid with interest at a specified time, the transaction is known as a *loan*. A loan made to the business by a partner is a liability of the firm. Such loans must not be credited to the partner's capital or investment account, but should be recorded in a separate account, such as Partners' Loans Payable. It is customary to keep an individual Loans Payable account in the name of each partner, such as J. Clark, Loans Payable.

Interest on partners' loans.—When a partner advances money to the firm as a loan, he is usually allowed interest on the loan. Such interest is an expense of the business for money borrowed. In closing the ledger, the balance of the account "Interest on Partners' Loans" is transferred, like the

balances of other expense accounts, to the Profit and Loss account.

Determining the profit or loss of a partnership.—The net profit or loss of a partnership is determined in the same manner as is the profit or loss of a sole proprietor. At the close of each accounting period, the expense and income accounts are closed into the Profit and Loss account.

Distribution of partnership profits.—Partners participate in the profits of a firm in accordance with the partnership agreement. If the partnership agreement does not contain a statement as to how the profits or losses are to be shared, then the law requires that the profits and losses must be shared equally.

The most simple partnership, from an accounting standpoint, is one in which the investments of the several partners are equal and profits are divided equally.

This condition does not exist in all partnerships. The members of the partnership may invest unequal amounts and share the profits on the basis of their investment, in which case the profits are said to be distributed on the *capital ratio.* The investment of each partner in the firm may be equal but the partners may not share equally in the profits, in which case the profits are said to be distributed in the *profit and loss sharing ratio.* The members of the partnership may invest unequal amounts, share equally in the profits, and agree to allow interest on the capital invested. In this case, the effect of allowing interest on capital invested is to distribute the profits *partly on the capital ratio and partly on the profit and loss sharing ratio.*

Thus it will be seen that the profits or losses of a partnership may be distributed:

(1) on the capital ratio;
(2) on the profit and loss sharing ratio; and
(3) on the capital and profit and loss sharing ratio.

The distribution of profits on these ratios will now be illustrated.

1. *Illustrating the distribution of the net profit or loss on the capital ratio.*

For the purpose of illustration, let it be assumed that Clark has invested $50,000, Jones $30,000 and Brown $20,000, in the firm of Clark and Jones, and that the partners agreed to share the profits on the basis of their investment. It is assumed that the profit for the period was $20,000.

Solution

Since the profits are to be distributed on the basis of the capital invested, and since the total capital invested is $100,000, it follows that each partner will receive as his share an amount which bears to the net profit of $20,000 the same ratio as his investment bears to the total investment. To illustrate:

Clark's Capital / Total Capital	$ 50,000 / 100,000	= 5/10, or 1/2, of $20,000 net profit =	$10,000
Jones' Capital / Total Capital	$ 30,000 / 100,000	= 3/10 of $20,000 net profit =	6,000
Brown's Capital / Total Capital	$ 20,000 / 100,000	= 2/10, or 1/5, of $20,000 net profit =	4,000
		Total	$20,000

The Profit and Loss Statement follows:

CLARK & JONES

Profit and Loss Statement for the Year Ended .....

Net Profit for the Period		$20,000
Distribution of Profit:		
J. Clark, 5/10	$10,000	
A. Jones, 3/10	6,000	
E. Brown, 2/10	4,000	
Total Distribution of Profit		$20,000

The Profit and Loss account is closed by journal entry into the drawing or personal accounts of the partners as follows:

Profit and Loss	$20,000	
James Clark, Personal		$10,000
Alfred Jones, Personal		6,000
Edward Brown, Personal		4,000

The drawing accounts are closed by journal entry as follows:

James Clark, Personal	$10,000	
Alfred Jones, Personal	6,000	
Edward Brown, Personal	4,000	
James Clark, Capital		$10,000
Alfred Jones. Capital		6,000
Edward Brown, Capital		4,000

2. *Illustrating the distribution of the net profit or loss on the profit and loss sharing ratio.*

For the purpose of illustration, let it be assumed that Clark, Jones, and Brown each have invested $25,000 and that profits are to be divided as follows: Clark, 40%; Jones and Brown, each 30%. The loss for the period is assumed to be $20,000.

The solution, in the form of a Profit and Loss Statement, follows:

CLARK & JONES

Profit and Loss Statement for the Year Ended .....

Net Loss for the Period		$20,000
Distribution of Loss:		
James Clark, 4/10	$8,000	
Alfred Jones, 3/10	6,000	
Edward Brown, 3/10	6,000	
Total Loss Distributed		$20,000

The final journal entries, closing the Profit and Loss and Drawing or Personal Accounts, follow:

James Clark, Personal	$8,000	
Alfred Jones, Personal	6,000	
Edward Brown, Personal	6,000	
Profit and Loss		$20,000
James Clark, Capital	8,000	
Alfred Jones, Capital	6,000	
Edward Brown, Capital	6,000	
James Clark, Personal		8,000
Alfred Jones, Personal		6,000
Edward Brown, Personal		6,000

3. *Illustrating interest allowed on capital, and sharing profits equally.*

For the purpose of illustration, let it be assumed that the capital invested January 1, 19— was as follows: Clark, $50,000; Jones, $30,000; Brown, $20,000, and that the net profit for the year, exclusive of interest on capital, was $20,000.

The agreement provides that interest at 6% is to be allowed on the capital invested at the beginning of each year and that profits and losses are then to be shared equally.

Method 1.—By this method, interest is calculated on the capital invested by each partner at the beginning of the year and the partners drawing or personal accounts are credited.

Solution

Each partner is entitled to interest for one year at 6% on the capital invested, which is as follows:

	Capital		*Rate*		*Interest*
James Clark	$50,000	×	6%	=	$3,000
Alfred Jones	30,000	×	6%	=	1,800
Edward Brown	20,000	×	6%	=	1,200
Total	$100,000				$6,000

Of the net profit of $20,000, there remains to be distributed $14,000 on the profit and loss sharing ratio, since $6,000 of the profit, as shown above, will be distributed on the capital ratio.

The Profit and Loss Statement should be continued as follows:

Net Profit for the Period		$20,000
Distribution of Profit:		
J. Clark—Interest (Ratio 5)	$3,000.00	
A. Jones—Interest (Ratio 3)	1,800.00	
E. Brown—Interest (Ratio 2)	1,200.00	
J. Clark—Profit (Ratio 1)	4,666.67	
A. Jones—Profit (Ratio 1)	4,666.67	
E. Brown—Profit (Ratio 1)	4,666.66	
Total Distribution of Profit		$20,000

The capital ratio in this case is 5, 3, and 2, that is, $\frac{5}{10}$, $\frac{3}{10}$, and $\frac{2}{10}$; the profit and loss sharing ratio is 1, 1, and 1, that is, $\frac{1}{3}$, $\frac{1}{3}$, and $\frac{1}{3}$.

The final entries, recording Interest on Partners' Capital and closing the latter into the Profit and Loss, and Drawing or Personal accounts, follow:

	Interest on Partners' Capital	6,000		
	James Clark, Personal		3,000	
	Alfred Jones, Personal		1,800	
	Edward Brown, Personal		1,200	
	To credit the partners' Drawing accounts for interest on capital.			
	Profit and Loss	6,000		
	Interest on Partners' Capital		6,000	
	To close interest on partners' capital.			
	Profit and Loss	14,000		
	James Clark, Personal		4,666	67
	Alfred Jones, Personal		4,666	67
	Edward Brown, Personal		4,666	66
	To close the Profit and Loss account and to credit the partners' Drawing accounts.			
	James Clark, Personal	7,666	67	
	Alfred Jones, Personal	6,466	67	
	Edward Brown, Personal	5,866	66	
	James Clark, Capital		7,666	67
	Alfred Jones, Capital		6,466	67
	Edward Brown, Capital		5,866	66
	To close the Drawing accounts and to credit the partners' Capital accounts.			

The accounts, as they would appear in the ledger, follow:

Interest on Partners' Capital

19—						19—				
Dec.	31	To Partners' Accounts	6,000	00		Dec.	31	Profit & Loss	6,000	00

Profit and Loss

19—						19—				
Dec.	31	Clark, Int.	3,000	00		Dec.	31	Balance	20,000	00
	31	Jones, Int.	1,800	00						
	31	Brown, Int.	1,200	00						
	31	Clark, Profit	4,666	67						
	31	Jones, Profit	4,666	67						
	31	Brown, Profit	4,666	66						
			20,000	00					20,000	00

James Clark, Personal

19—					19—					
Dec.	31	To Capital a/c	7,666	67	Dec.	31	Interest	3,000	00
						31	Profit	4,666	67
			7,666	67				7,666	67

James Clark, Capital

					19—				
					Jan.	1	Investment	50,000	00
					Dec.	31	Personal	7,666	67

Alfred Jones, Personal

19—					19—				
Dec.	31	To Capital a/c	6,466	67	Dec.	31	Interest	1,800	00
						31	Profit	4,666	67
			6,466	67				6,466	67

Alfred Jones, Capital

					19—				
					Jan.	1	Investment	30,000	00
					Dec.	31	Personal	6,466	67

Edward Brown, Personal

19—					19—				
Dec.	31	To Capital a/c	5,866	66	Dec.	31	Interest	1,200	00
						31	Profit	4,666	66
			5,866	66				5,866	66

Edward Brown, Capital

					19—				
					Jan.	1	Investment	20,000	00
					Dec.	31	Personal	5,866	66

Method 2.—By this method, the average of the total capital is ascertained and the partners' Drawing or Personal accounts are either debited or credited with interest on the excess or the deficiency of the average capital.

Solution

Clark, Capital	$50,000.00
Jones, Capital	30,000.00
Brown, Capital	20,000.00
Total Capital	$100,000.00
The average capital is ⅓ of $100,000, or $33,333.33	
Clark, Capital	50,000.00
Average Capital	33,333.34
Excess of Capital	$16,666.66
Average Capital	$33,333.33
Jones, Capital	30,000.00
Deficiency or Shortage of Capital	$ 3,333.33
Average Capital	$33,333.33
Brown, Capital	20,000.00
Deficiency or Shortage of Capital	$13,333.33
The interest on	
$16,666.66 for 1 year at 6% is	$ 1,000.00
3,333.33 for 1 year at 6% is	200.00
13,333.33 for 1 year at 6% is	800.00

From the foregoing, it will be seen that Clark has contributed $16,666.66 in excess of the average capital invested, and that the contributions of Jones and Brown are short of the average capital of $3,333.33 and $13,333.33, respectively.

By crediting the account of Clark with $1,000 interest on the excess capital contributed by him, and by debiting the accounts of Jones $200 and Brown $800, interest on their respective deficiencies in capital, the effect is the same as crediting the account of each partner with the amount of interest on his respective investment, as illustrated under Method 1.

The entries to adjust the accounts of the partners, and to close the Profit and Loss and Personal accounts, would be as follows:

Alfred Jones, Drawing or Personal	200		
Edward Brown, Drawing or Personal	800		
James Clark, Drawing or Personal		1,000	
To adjust the accounts of the partners in respect to interest on capital invested.			
Clark's Excess.... $16,666.67 × 6% = $1,000			
Jones' Deficiency.. 3,333.33 × 6% = 200			
Brown's Deficiency 13,333.33 × 6% = 800			
Profit and Loss	20,000		
James Clark, Drawing or Personal		6,666	67
Alfred Jones, Drawing or Personal		6,666	67
Edward Brown, Drawing or Personal		6,666	66
To close the profit and loss account and to distribute the profit equally among the partners.			
James Clark, Drawing or Personal	7,666	67	
Alfred Jones, Drawing or Personal	6,466	67	
Edward Brown, Drawing or Personal	5,866	66	
James Clark, Capital		7,666	67
Alfred Jones, Capital		6,466	67
Edward Brown, Capital		5,866	66
To close the drawing accounts.			

The accounts, as they would appear in the ledger, follow:

Profit and Loss

19—					19—				
Dec.	31	Clark	6,666	67	Dec.	31	Balance	20,000	00
	31	Jones	6,666	67					
	31	Brown	6,666	66					
			20,000	00				20,000	00

James Clark, Personal

19—					19—				
Dec.	31	To Capital a/c	7,666	67	Dec.	31	Interest	1,000	00
						31	Profit	6,666	67
			7,666	67				7,666	67

James Clark, Capital

					19—				
					Jan.	1	Investment	50,000	00
					Dec.	31	Personal	7,666	67

Alfred Jones, Personal

19—				19—			
Dec.	31	Interest	200 00	Dec.	31	Profit	6,666 67
	31	To Capital a/c	6,466 67				
			6,666 67				6,666 67

Alfred Jones, Capital

				19—			
				Jan.	1	Investment	30,000 00
				Dec.	31	Personal	6,466 67

Edward Brown, Personal

19—				19—			
Dec.	31	Interest	800 00	Dec.	31	Profit	6,666 66
	31	To Capital a/c	5,866 66				
			6,666 66				6,666 66

Edward Brown, Capital

				19—			
				Jan.	1	Investment	20,000 00
				Dec.	31	Personal	5,866 66

A comparison of the Capital accounts of each partner, as shown in the preceding illustration under Methods 1 and 2, will disclose the fact that the final balances are the same. From this, we conclude that the effect of adjusting the partners' accounts for interest on the excess or the deficiency of capital is the same as crediting the individual partners' accounts with interest on capital invested.

A comparison of the Profit and Loss accounts is also desirable. It will be seen that, by the one method, interest on partners' capital appears in the Profit and Loss account as a part distribution of the net profit; whereas, by the other method, adjustment for interest on capital is made directly through the partners' accounts without the use of the Profit and Loss account.

Interest on partners' capital.—Interest on partners' capital should not be confused with interest on partners' loans.

Interest on partners' loans, as has already been explained, is an expense of the business for money borrowed; whereas interest on partners' capital is usually allowed only in cases where the capital investments are unequal, and the profits are shared equally or in some ratio other than the capital ratio. In such cases, the object of allowing interest on partners' capital is to compensate the one who has furnished more than the average amount of capital and to penalize those who furnished less. This may be done by distributing the net profit partly on the capital ratio and partly on the profit- and loss-sharing ratio, as was explained in the illustration of Method 1 on page 207, or by finding the average capital and making the necessary adjustment of the partners' accounts for interest on the excess and deficiency of capital, as was illustrated in Method 2 on page 209.

Interest on partners' capital is allowed only if the partnership agreement so provides. In calculating interest on partners' capital, the bookkeeper must be guided by the partnership agreement. In the preceding illustration, interest was calculated on the investment at the beginning of the period, since it was assumed that the partnership agreement so specified. The partners, however, may agree to allow interest:

1. On the capital invested at the beginning of the period, as has been illustrated.
2. On the capital invested at the close of the period.
3. On the capital invested and the length of time it was invested.
4. On the excess of capital only; that is, on the capital invested in excess of the agreed-upon amount.
5. On the deficiency of capital only; that is, on the amount by which the investment is short of the agreed upon amount.

The bookkeeping procedure would be the same in all cases, although the basis for calculating would be different in each case.

The capital section of the Balance Sheet.—The capital section of the Balance Sheet prepared for a partnership should show the capital invested and the changes during the accounting period just ended. This is illustrated as follows:

		Capital		
James Clark, Investment...		$50,000.00		
Add—Interest on Capital...	$3,000.00			
Net Profit.....	4,666.67	7,666.67	$57,666.67	
Alfred Jones, Investment...		30,000.00		
Add—Interest on Capital...	1,800.00			
Net Profit.....	4,666.67	6,466.67	36,466.67	
Edward Brown, Investment		20,000.00		
Add—Interest on Capital...	1,200.00			
Net Profit.....	4,666.66	5,866.66	25,866.66	
Total Capital.....				$120,000.00

Drawings of partners are shown in the capital section of the Balance Sheet in the following manner:

James Clark, Investment.....		$50,000.00	
Add—Interest on Capital.....	$3,000.00		
Net Profit.....	4,666.67		
	7,666.67		
Less—Drawing.....	1,000.00	6,666.67	$56,666.67

Review Questions

1. In general, are the records kept for a partnership different from those kept for a sole proprietor?

2. Name some accounts often found in the ledger of a partnership that do not appear on the ledger of a sole owner.

3. Are partners entitled to a salary if nothing is said about it in the Articles of Co-partnership?

4. If a partner loans money to the firm, what account should be used to represent the liability involved?

5. A liability such as that mentioned in question 4 would probably be evidenced by a promissory note issued to the partner. Would it be good accounting to credit the Notes Payable account? Why?

6. In what respect does the Profit and Loss Statement of a partnership differ from that of a sole owner?

7. Name three ways of determining the amount of net profit to which each partner is entitled.

8. How are profits and losses shared by partners when nothing is said in the Articles of Co-partnership?

9. What account is debited for the interest allowed on partners' investments? What is done with this account?

10. When interest has been allowed on partners' capital as a partial distribution of profits, how is the remaining profit divided?

11. Explain how interest may be adjusted on partners' capital without affecting the Profit and Loss account.

12. How does the Balance Sheet of a partnership differ from that of a sole proprietor?

Exercises

1. George Wilson and Henry Watson are partners sharing profits and losses equally. The net profit for the six months ended June 30, 19—, is $5,400.

Show the distribution entry.

2. Assume that, in question 1, the capital accounts of Wilson and Watson showed investments of $10,000 and $8,000, respectively, and that profits and losses were shared in proportion to investments.

Show the distribution entry.

3. On July 1, 19—, E. R. Perney and T. J. Lewis formed a partnership. Perney invested $12,000 and Lewis, $15,000. The partnership agreement provided that profits and losses were to be shared equally after allowing each partner interest on his capital investment at the rate of 6% per annum.

The books are closed on December 31, at the close of the first six-months' period. The net profit was $2,100.

(a) Show all necessary entries.

(b) Show the Personal and the Capital accounts of the partners as they should appear after closing the books, assuming that E. R. Perney had withdrawn $200 cash on September 10 and T. J. Lewis, $300 cash on November 1.

(c) Show the capital section of the Balance Sheet at December 31.

4. The following accounts appeared on the ledger of Mills & Curry on June 30, 19—. All closing entries had been made except the entries to distribute the net profit.

The partners are to receive interest on their original investments at the rate of 6% per annum, after which the remaining profit is to be shared equally.

C. N. Mills, Capital

						19—				
						Jan.	2	Investment	11,000	00

C. N. Mills, Personal

19—										
Feb.	10	Cash			100	00				
May	15	Cash			100	00				

H. P. Curry, Capital

						19—				
						Jan.	2	Investment	22,000	00

H. P. Curry, Personal

19—										
Mar.	12	Cash			120	00				
June	1	Cash			180	00				

Profit and Loss

						19—				
						June	30	Balance	6,570	00

(a) Copy the above accounts on a sheet of ledger paper.
(b) Prepare the journal entries necessary to complete the books at June 30.
(c) Post the journal entries and complete the ledger accounts. (The additional account needed may be placed after the Profit and Loss account.)
(d) Prepare the distribution section of the Profit and Loss Statement.
(e) Prepare the capital section of the Balance Sheet.

5. On March 1, 19—, S. A. Collins and B. W. Hooper, equal partners, had assets of $14,500 and liabilities of $6,200. On June 30 they had assets of $19,250 and liabilities of $9,400.

(a) Calculate the net profit for the four months.
(b) Show the entry to distribute the profit.
(c) Prepare the capital section of the Balance Sheet.

6. L. C. Amidon and T. J. Lang began business as partners on September 1. Amidon invested $7,500 and Lang, $5,000. On December 31 they had assets of $24,600 and liabilities of $9,300. Profits and losses are to be shared according to the original capital invested.

(a) Show the distribution entry.
(b) Prepare the capital section of the Balance Sheet.

7. W. J. Caley and F. E. Church are equal partners. On April 1 they had assets of $12,000 and liabilities of $7,000. On June 30, they had assets of $9,000 and liabilities of $12,000.

(a) Calculate the net profit or net loss for the three months.
(b) Show the capital accounts of the partners after closing the books at June 30.
(c) What per cent on the dollar can Caley & Church pay to creditors?

8. The following are the Capital and Personal accounts appearing on the ledger of Price and Winters, partners, at August 31, 19—. The partnership agreement provides that interest shall be allowed on capital investments, for the period invested, and charged on withdrawals, from the date of withdrawal, at the rate of 6% per annum. The profit remaining after interest adjustments is to be divided equally. The net profit for the two months was $1,200.

(a) Copy the accounts on a sheet of ledger paper. Add a Profit and Loss account and enter the net profit.
(b) Make all interest calculations and determine the net interest to be credited to each partner before final distribution of profit.
(c) Make journal entries necessary to complete the books at August 31.
(d) Post the journal entries (another account is to be added).
(e) Complete the ledger accounts.
(f) Show the capital section of the Balance Sheet.

A. W. Price, Capital

				19— July	1	Investment	9,000 00

A. W. Price, Personal

19— July	21	Cash	300 00				
Aug.	31	Cash	100 00				

S. T. Winters, Capital

				19— July	1	Investment	14,000 00

S. T. Winters, Personal

19— Aug.	16	Cash	400 00				

9. The capital of three partners, *A*, *B*, and *C*, in a manufacturing business on January 1, 19—, was $26,000, of which *A* owned ⅕, *B*, ⅖, and *C*, ⅖. On December 31, one year thereafter, the condition of the business was found to be as follows:

Assets

Land and Buildings		$15,000
Plant and Machinery		7,000
Stock on Hand		2,000
Customers		6,000
Cash in Bank		2,500

Liabilities

Notes Payable		8,000
Partners' withdrawals were:		
A	$1,500	
B	1,200	
C	2,000	4,700

After crediting interest on capital at the rate of 6%, show the net result for the year, and distribute the same, in the proper proportions, to the partners' accounts. Prepare the individual partners' accounts, Capital and Personal, showing the condition of each at the end of the year. Use journal and ledger.

Chapter XV

PRACTICE SET

Introductory

This set will serve to provide additional drill in the application of those principles which have been developed in the preceding chapters. The partnership form of business organization, and the problems incident to that legal type of business organization, are particularly emphasized.

Books to be Used

The books of account to be used are here described:

General journal.—A six-column divided journal, with money columns arranged as follows: *debit side*—Notes Receivable, Accounts Payable, General Ledger; *credit side*—General Ledger, Accounts Receivable, Notes Payable.

Cash journal.—A four-column cash journal, with money columns arranged as follows: *receipts side*—Net Cash, Accounts Receivable, Sales Discount, General Ledger; *payments side*—Net Cash, Accounts Payable, Purchase Discount, General Ledger.

Sales journal.—Sales will be recorded in a special journal with columns arranged for Date, Accounts Receivable, Addresses, Terms, Sales Number, Discount Date, and Amount.

Purchase journal.—This journal will have special money columns to include: Amount, Merchandise Purchases, Stationery and Printing, Insurance, Auto Expense, and General.

The ledgers.—Three ledgers are to be kept: a general ledger and two subsidiary ledgers for customers' and creditors' accounts, controlled through the general ledger. The following accounts are to be kept in the general ledger, allowing ½ page for each:

Cash
Petty Cash Fund
Notes Receivable
Accrued Interest Receivable
Accounts Receivable
Public Service Co. Bonds
Merchandise Inventory
Real Estate
Furniture and Fixtures
Auto Truck
Goodwill
Stationery and Printing
Office Supplies
Insurance Prepaid
Sales Discount
Sales Returns and Allowances
Office Salaries
Salary, Mr. Hamilton
Salary, Mr. Wade
Salaries of Salesmen
Traveling Expense
Depreciation of Furniture and Fixtures
Depreciation of Auto Truck
Freight and Cartage In
Freight and Cartage Out
Auto Expense
General Expense
Advertising
Rent
Insurance Expense
Interest Cost
Provision for Bad Debts
Stationery and Printing Used
Purchases
Reserve for Depreciation of Furniture and Fixtures
Reserve for Depreciation of Auto Truck
Reserve for Doubtful Accounts
Purchase Returns and Allowances
John Hamilton, Capital
John Hamilton, Personal
Thomas J. Wade, Capital
Thomas J. Wade, Personal
Thomas J. Wade, Contribution Account
Sales
Notes Payable
Accrued Interest Payable
Accounts Payable
Salaries Accrued
Sundry Liabilities
Mortgage Payable
Notes Receivable Discounted
Interest Earned
Purchase Discounts
Interest on Partners' Capital

The accounts in the customers' and creditors' ledgers are to be allowed ¼ page each. Accounts are to be opened in the order in which they appear in the schedules shown in connection with the Balance Sheet of John Hamilton at April 1. Other accounts are to be added as needed.

Preliminary Instructions

On April 1, 19—, John Hamilton, a wholesale dealer in woolens, admits Thomas J. Wade as a partner. Mr. Wade is to invest $10,000 in cash for a one-third interest; and, in calculating goodwill to be allowed to Mr. Hamilton, the balance sheet at March 31 is to be used as a basis.

The partnership is to continue for a period of five years, unless terminated earlier by mutual consent, under the firm

name of Hamilton & Wade. Profits and losses are to be shared equally. Each partner is to receive a salary of $200 per month; and, at the time of closing the books, interest is to be allowed on the partners' capital at the rate of 6% per annum before the profits are divided.

The assets and liabilities of John Hamilton, as shown by his balance sheet at March 31, were as follows:

Assets.—Cash, $4,536.85; Notes Receivable, $1,405; Accrued Interest Receivable, $1.33; Accounts Receivable, $16,032.50; Merchandise Inventory, $18,965; Furniture and Fixtures, $835; Stationery and Printing, $15; Insurance Prepaid, $220.

Liabilities.—Notes Payable, $9,800; Accrued Interest Payable, $23.20; Accounts Payable, $16,730.

The following schedules support the Balance Sheet:

Schedule No. 1—Notes Receivable

Note of Miller & Co. dated March 1, at one month, without interest, $1,005.

Note of Cann & Co. dated March 11, due in one month, with interest at 6%, $400.

Schedule No. 2—Accounts Receivable

Cann & Co., Brooklyn, N. Y.	$ 500.00
J. Link, Newark, N. J.	437.50
J. T. Ludlow, Boston, Mass.	1,650.00
T. Wilson & Co., Bridgeport, Conn.	1,300.00
Tompkins & Co., Philadelphia, Pa.	2,750.00
William Bradhurst, Boston, Mass.	1,000.00
Marshall & Co., New Haven, Conn.	1,725.00
Dublin & Co., Chicago, Ill.	1,945.00
L. Crane, City	2,250.00
L. Hughes, City	1,375.00
B. Hobart, City	1,100.00
	$16,032.50

Schedule No. 3—Notes Payable

Note in favor of Reynolds & Co., dated March 2, due in one month with interest at 6%, $4,800.

Note in favor of Wall Street Trust Co., dated March 11, to run for 60 days, $5,000.

Schedule No. 4—Accounts Payable

Bell & Co., Passaic, N. J.	$ 1,500.00
Baldwin Mfg. Co., Altoona, Pa.	6,900.00
Reynolds & Co., Passaic, N. J.	1,600.00
Taylor Mfg. Co., Paterson, N. J.	3,420.00
Brewster & Co., City	240.00
Jackson Mills, Scranton, Pa.	3,050.00
J. Slater, City	20.00
	$16,730.00

Mr. Wade is unable to contribute the entire amount of his investment at this time. He gives his check for $7,500, and agrees to contribute the remaining $2,500, at May 1.

Mr. Hamilton draws check No. 44 to transfer his balance of $4,536.85, in the Wall Street Trust Company, to the credit of the firm. This check and the check of Mr. Wade are deposited in the Wall Street Trust Company.

The following steps are to be taken at this point:

1. As bookkeeper for Hamilton & Wade, make the entry in the general journal necessary to open a new set of books at April 1.

A contribution account is to be opened for Mr. Wade, as explained in Chapter XIII.

2. Record the cash invested by Mr. Hamilton as a balance in the cashbook. (The amount is to be posted from the general journal opening entry to the cash account.)

3. In the cashbook, record the receipt of the check from Thomas J. Wade.

4. Make entries to reverse the accruals shown in the opening entry.

5. Open all the general ledger accounts listed on page 220, allowing ½ page for each.

6. Post to the general ledger from the general journal; also the entry in the cash receipts journal for Mr. Wade's contribution.

7. Open accounts as needed in the customers' and creditors' ledgers and post from the opening entry in the general journal.

Memorandum of Transactions for April

April 1

Paid by check No. 45, Jay Realty Co., $200, rent for April.

Paid by check No. 46, Quick Delivery Co., $100, cartage on incoming merchandise.

Note of Miller & Co., dated March 1, due in one month, in amount $1,005, reported by the bank as having been paid. The note had been left for collection on March 27.

April 2

Note of Mr. Hamilton, in amount $4,800, given to Reynolds & Co., dated March 2, due in one month with interest at 6%, presented to the Wall Street Trust Co. and paid.

Discounted at the Wall St. Trust Company at 6%, the note of Cann & Co., dated March 11, in amount $400, due in one month with interest at 6%.

Drafts were drawn at sight on the following customers:

J. Link, City	$ 437.50	—invoice February 28
L. Hughes, City	1,375.00	—invoice February 21
T. Wilson & Co., Bridgeport, Conn	1,300.00	—invoice February 9

Make no entry.

Received invoice from Remington Typewriter Co., for combination typewriter and billing machine, $150. Terms n/30.

April 3

Received check from Tompkins & Co., Philadelphia, in amount $2,695, invoice March 22, $2,750, less 2%.

Sold to Marshall & Co., New Haven, Conn.

500 yds. Broadcloth	@$4.00	$2,000.00	
200 yds. Melton	@ 3.25	650.00	
Terms: 2/10, n/30.			$2,650.00

Sold to Miller & Co., Albany, N. Y.

500 yds. Cloakings	@$2.00	$1,000.00	
100 yds. Broadcloth	@ 4.00	400.00	
Special terms 5% for cash.		$1,400.00	

Sold to King & Co., Jacksonville, Fla.

250 yds. Broadcloth	@$4.00	$1,000.00
400 yds. Flannel	@ 1.50	600.00
		$1,600.00

Terms 2%, Sight Draft, Bill of Lading attached. Debit C.O.D. account.

Left sight draft. in amount $1,568, with B/L attached, on King & Co., with Wall Street Trust Co. for collection. Make no entry.

April 4

The Bank reports sight draft on L. Hughes, $1,375, and T. Wilson & Co., $1,300 paid, and returns unpaid draft on J. Link, with notation "will remit direct." (See transaction of April 2.)

Received invoice from Eclipse Mills, Altoona, Pa., for merchandise purchased:

800 yds. Broadcloth	@$3.00	$2,400.00

Terms 2%, subject to draft payable in ten days.

(See transaction below.)

Accepted (payable at Wall St. Trust Co.) draft of Eclipse Mills dated April 2, payable 10 days after sight, in amount $2,352 (invoice April 4, $2,400, less 2%).

Received invoice from Tower Mfg. Co. for stationery, $12.50.

Received invoice from New York Desk Co. for desk and chair, $40.

April 6

Received check from Miller & Co. in amount $1,330, in payment of invoice April 3, $1,400 less 5%.

April 8

Sold for cash:

50 yds. Serge	@$2.00	$100.00
Less 2%		2.00
Enter in cashbook.		$98.00

Had pass book balanced at the bank and received statement showing a balance of $4,774.26 at April 1. The bank has allowed $7.16 interest on deposits, has charged $2 for collection, and has returned canceled checks except No. 39,

$17.25; No. 42, $175; No. 43, $40. Reconcile the bank's statement. Enter the interest and the collection charge in the cashbook.

Received check dated April 20, from J. T. Ludlow, in amount $600, in payment of invoice dated March 5. Make no entry, as check is postdated.

April 10

Purchased light delivery truck from Wilcox Motor Truck Co., in amount $1,200; freight, $50; payable $650 in cash and balance in interest-bearing notes as follows:

Dated	April	10,	due in	1	month,	interest	6%	$100.00
"	"	10,	"	" 2	"	"	6%	100.00
"	"	10,	"	" 3	"	"	6%	100.00
"	"	10,	"	" 4	"	"	6%	100.00
"	"	10,	"	" 5	"	"	6%	100.00
"	"	10,	"	" 6	"	"	6%	100.00

Notes were made payable at Wall Street Trust Co.

Drew check No. 47 for $650. Engaged chauffeur at $80 per month.

April 11

It is decided to establish an Imprest Cash fund to provide for the payment of small bills. A check, No. 48, is drawn for $50 and cashed at the bank. The bookkeeper is given charge of the fund. A Petty Cashbook is to be kept with columns arranged as follows: Amount Received, Amount Paid, General Expense, Office Supplies, Stationery and Printing, General.

April 12

Sold to L. Hughes, City.

300 yds. Fancy Suiting	@$1.75	$525.00	
200 yds. Serge	@ 2.00	400.00	
Terms 2/10, n/30.			$925.00

Sold to T. Wilson & Co., Bridgeport, Conn.

250 yds. Golf Cloth	@$2.00	$500.00

Terms 2%, subject to acceptance of draft, payable 10 days after date.

(See transaction following.)

Drew on T. Wilson & Co., Bridgeport, Conn., at ten days after date, for $490 (invoice April 12, $500 less 2%).

It was learned at the bank that Cann & Co. had paid their note due on April 11, which we had discounted on April 2. Make the proper journal entry.

April 13

Received the 10-day draft for $490 drawn on T. Wilson & Co. on April 12. They accepted, payable at the Bridgeport National Bank. The draft was left at the Wall Street Trust Co. for collection.

Paid by check No. 49, Brewster & Co., $240, invoice March 1.

Paid by check No. 50, Baldwin Mfg. Co., $5,400, invoice February 18.

Paid by check No. 51, Consolidated Gas Co., $9.50 (general expense).

Received notice from the bank that the sight draft on King & Co., in amount, $1,568, (invoice April 3, $1,600, less discount $32) has been paid. (See transaction, April 3.)

Paid the following bills out of petty cash: office supplies, $3.10; printing bill, $4.50; cleaning office windows, $1.50.

April 14

The partners arrange for the purchase of the building occupied by them. The purchase price is $12,000. The terms of purchase from the Jay Realty Co. provide that the rent paid for April is to apply on the purchase price, and $7,000 is to remain on a first mortgage for three years at 6%. The remainder is to be paid in cash. The necessary documents are prepared; a check No. 52 is drawn for $4,800, and the partners take title. The lawyer's fees, amounting to $82.50, were paid by check No. 53.

An error is discovered in the extension of the inventory at April 1. The amount was overstated by $100. By agreement between the partners, the amount is charged to Mr. Hamilton's Capital account.

April 15

Paid by check No. 54, to Modern Garage, rent of auto space for April, $16 (⅔ of a month at $24 per month). Debit Auto Expense.

Received check from Marshall & Co., in amount $4,322, in payment of invoice, March 18, $1,725, and April 3, $2,650, less 2% cash discount, $53.

Reynolds & Co. request payment of invoice, in amount $1,600, dated March 15. Mr. Hamilton draws on Dublin & Co., (who owe invoice of March 15, $1,945) at sight, requesting them to accept the draft and forward same to Reynolds & Co., Passaic, N. J. The draft, in amount $1,600, is accepted.

Sold C. O. D. to Modern Tailoring Co.

50 yds. Melton ..... @ $3.25 ~~$16.50~~ 162.50

Terms Cash less 2%. Debit C. O. D. account.

Received from Modern Tailoring Co., C. O. D. customer, check for $159.25 in payment of invoice of even date, $162.50 less 2% cash discount, $3.25.

Paid by check No. 55, Bell & Co., $1,470, invoice of March 20 ($1,500 less 2% cash discount, $30). Note that their terms are 2/10, n/30.

Draft of Eclipse Mills, dated April 2, payable in 10 days after sight, in amount $2,352, and accepted by us on April 4, presented to the Wall Street Trust Co. and paid. (See transaction of April 4.)

April 16

Paid by check No. 56, Wall Street Trust Co., $2,000, for two $1,000 Public Service Co. 6% bonds purchased. One bond is to be carried as an investment by the business; the other is a personal investment of Mr. Hamilton's. Mr. Hamilton instructs the bookkeeper to open a Personal account for him.

Received invoice from Brewster & Co., insurance brokers, for insurance on building for three years from April 14, $92.50.

April 17

Received notice from bank that check of Modern Tailoring Co., in amount $159.25, has been protested, and that our account has been charged $160.54, covering check of $159.25 and protest fees, $1.29. The discount allowed at time of payment was $3.25. (See transactions of April 15.)

Bell & Co. return our check No. 55, in amount $1,470, and request check for the full amount, as discount period has expired. The check is deposited by us in the bank and the original entry is canceled. (Use cashbook and general journal.)

April 18

Paid by check No. 57, Western Union Telegraph Co., $25.

Paid out of petty cash the following: telegram, $1.10; sundry expense bills, $8.75; office supplies, $4.50; supplies for truck, $3.90.

April 19

Received note from B. Hobart, dated April 4, in amount $1,100, due in 60 days, with interest at 6%, in settlement of invoice dated March 4.

April 20

Received note from J. T. Ludlow, dated April 18, in amount $1,050, due in one month, with interest at 5%, in settlement of invoice dated March 4.

Deposited check for $600, dated April 20, received on April 8, from J. T. Ludlow, in payment of invoice dated March 5.

April 22

Paid by check No. 58, N. Y. Edison Co., $16 for lighting service.

April 23

Received notice from bank that the draft on T. Wilson & Co., in amount $490, drawn by us on April 12, and accepted by them April 13, has been paid. (See transactions of April 13.)

Received request from N. Y. Edison Co., for payment of their invoice dated March 15 for February service. Mr. Hamilton informs them over the telephone that the invoice in question was paid by his check No. 39, dated March 15, in amount $17.25 and payable at the Wall Street Trust Co. The payee did not receive the check. Mr. Hamilton requests the bank, over the telephone, to stop payment on the check and confirms the request in writing.

Drew check No. 59 to the order of N. Y. Edison Co., for $17.25 covering February service. Make entries on the receipt side and on the payment side of the cashbook.

Sold to Cann & Co., Brooklyn, N. Y.

100 yds. Serge	@$2.00	$ 200.00	
150 yds. Fancy Suitings	@ 1.75	262.50	
Terms 2/10, n/30.			$ 462.50

Sold to L. Crane, City.

500 yds. Cloakings	@ 2.00	$1,000.00	$1,000.00
Terms 2/10, n/30.			

Sold to Miller & Co., Albany, N. Y.

300 yds. Golf Cloth	@ 2.00	$ 600.00	
100 yds. Melton	@ 3.25	325.00	
Terms 2/10, n/30.			$ 925.00

Sold to Dublin & Co., Chicago, Ill.

400 yds. Broadcloth	@ 4.25	$1,700.00	
250 yds. Serge	@ 2.20	550.00	
Terms 2/10, n/30.			$2,250.00

Sold to W. Hall & Co., Mt. Vernon, N. Y.

200 yds. Flannel	@$1.50	$300.00	$ 300.00
Terms net cash.			

Sold to Stewart & Myers, Syracuse, N. Y.

300 yds. Flannel	@$1.50	$450.00	
200 yds. Melton	@ 4.00	800.00	
Terms 2/10, n/30.			$1,250.00

Received invoice from Bradstreet's mercantile agency for year's subscription, $150. Paid by check No. 60.

April 25

Gave Taylor Mfg. Co., note dated April 26, due in two months, in amount $3,471.30, in payment of invoice February 26, $3,420, and interest from March 26 to June 26 (3 months) at 6%, $51.30.

Received invoice from Bell & Co., Passaic, N. J., for merchandise purchased:

500 yds. Serge	@$1.60	$800.00	
500 yds. Flannel	@ 1.20	600.00	
Terms 2/10, n/30.			$1,400.00

Received invoice from Reynolds & Co., Passaic, N. J., for merchandise purchased:

750 yds. Fancy Suitings	@$1.25	$937.00
Terms 2/10, n/30.		

Received invoice from Eclipse Mills, Scranton, Pa., for merchandise purchased:

1000 yds. Cloakings	@$1.40	$1,400.00	
500 yds. Golf Cloth	@ 1.50	750.00	
Terms 2/10, n/30.			$2,150.00

Received invoice from Taylor Mfg. Co., Paterson, N. J.

250 yds. Melton	@$2.50	$ 625.00
Terms S/D. B/L. attached.		

Taylor Mfg. Co. sent notice that they were drawing at sight for $612.50 (invoice of even date, $625, less 2% discount, $12.50) with B/L attached.

Paid by certified check No. 61 (drawn to the order of University National Bank) draft of Taylor Mfg. Co., in amount $612.50. See transaction above.

Paid by check No. 62, N. Y. Telephone Co., $15, for telephone service.

April 30

Paid by check No. 63, in amount $480, for salaries as follows:

Bookkeeper	$100
Clerk	100
Mr. Hamilton	200
Chauffeur	80

Mr. Wade instructs the bookkeeper to credit his salary for April to his Personal account.

Paid by check No. 64 to H. Jenkins, salesman, $235, covering salary for month, $175, and traveling expenses, $60.

Paid by check No. 65, *Dry Goods Journal,* $40, for April advertisements.

Paid out of petty cash the following: postage, $5.00; supplies for truck, $5.75.

Received invoice from Auto Supply Co., in amount $25, for auto supplies.

Issued check No. 66 to reimburse the petty cash fund. Balance the petty cashbook and bring down the balance. Make the entry for check No. 66 in the cashbook. Enter the amount in the petty cashbook under the balance.

Instructions:

1. Close and summarize all the journals in preparation for final posting.
2. Complete the posting at April 30.
3. Take a Trial Balance of the general ledger.
4. Prepare abstracts of the customers' and creditors' ledgers and prove with the controlling accounts.

The books are not to be closed at April 30. Continue with the records for May.

Memorandum of Transactions for May

May 1

Paid by checks Nos. 67 and 68, the accounts of the Tower Mfg. Co., $12.50, and the New York Desk Co., $40.

Received invoice of Reynolds & Co. for merchandise, $325.90, terms 2/10, n/30; invoice of Tower Mfg. Co. for stationery, $8.90; terms net cash.

Mr. Wade gave a check for the balance of his investment, $2,500

May 2

Received check from W. Bradhurst in full of account, $1,000.

Paid the following April accounts: Bell & Co., check No. 69, $2,900 less 2% on $1,400; Jackson Mills, check No. 70, $3,050.

May 3

Sold merchandise to J. Link, $462.50, terms 2/10, n/30; to Miller & Co., Albany, $925.00, terms "sight draft with documents attached." Drew a sight draft and left it with the Wall Street Trust Co. for collection. Bill of lading and copy of invoice were attached.

Received from Cann & Co. a note for $962.50, dated May 1, at 30 days, interest 6%, for balance of April account.

May 5

Drafts were drawn at sight through the Wall Street Trust Co. on the following customers: J. Link, $437.50; W. Hall, $300.00.

May 6

Received invoice of Bell & Co. for merchandise, $1,750, terms 3/10, n/60.

Discounted the note of B. Hobart, dated April 4, at the Wall Street Trust Co.

The bank reports the draft on Miller & Co., drawn on May 3, collected; also the drafts drawn on J. Link and W. Hall on May 5.

May 8

The following payments were made out of petty cash: postage, $3; office supplies, $1.70.

Sales were made and invoices issued to the following customers:

L. Hughes, terms 2/10, n/30	$ 765
W. Hall, terms, half cash, balance 15-day note	$1,200

Received check from L. Crane for balance on April account, $3,250.

Paid Brewster & Co. for invoice of April 16, $92.50 (check No. 71).

May 10

Received check and note from W. Hall for invoice of May 8. The note was dated May 8.

Paid Auto Supply Co., check No. 72, $25.

The bookkeeper was instructed to draw at sight, through the Wall Street Trust Co., on the Modern Tailoring Co. for

$163.79. (A check received from them at time of delivery, and deposited, was returned by the bank, marked "insufficient funds;" see April 17.)

J. Link paid for invoice of May 1, $462.50 less 2%.

Paid the note due to-day in favor of the Wall Street Trust Co., $5,000, check No. 73.

Paid note and interest due to-day in favor of the Wilcox Motor Truck Co. (see April 10), check No. 74.

L. Hughes returned a part of the merchandise sold to him on May 8; a credit memorandum was issued for $25.

May 13

Received the invoice of J. Slater for stationery purchased, $48.75, terms 3/10, n/60.

The bank reports the sight draft on the Modern Tailoring Co., drawn on May 10, collected.

Received invoice of Baldwin Mfg. Co. for merchandise purchased, $588.25, terms 2/10, n/30.

Paid Remington Typewriter Co., check No. 75, $150 in full of account.

Received check from Dublin & Co. in full for April account, $2,595; also the 30-day note of Stewart & Myers for balance of account, $1,250, interest at 6%.

May 15

Accepted the sight draft of Eclipse Mills, in amount $2,150, for balance of April account. The Wall Street Trust Co. charged the draft to our account.

Issued sales invoices to the following customers:

W. Bradhurst, terms 2/10, n/30	$1,165.50
L. Crane, terms 2/10, n/30	2,625.00

Withdrew cash from the bank, check No. 76, and paid two weeks' salaries as follows: Mr. Hamilton, $100; Mr. Wade, $100; bookkeeper, $55; salesman, $90; chauffeur, $45.

May 16

Paid N. Y. Edison Co. for lighting service, $22.50, check No. 77.

Paid Bell & Co. for invoice of May 6, $1,750, less 3% discount (check No. 78).

Paid out of petty cash the following: repairs to typewriter, $1.10; office supplies, $2.60; telegram, $.65; stationery, $1.50.

Gave Reynolds & Co. a note at 30 days for $325.90.

May 18

Received cash for the note of J. T. Ludlow, due to-day with interest at 5% (see April 20).

Paid the following accounts: Baldwin Mfg. Co., $1,500, check No. 79; Reynolds & Co., $937, check No. 80; J. Slater, $20, check No. 81.

Invoices were received from the following:

Jackson Mills, terms 2/10, n/30	$ 487.50
Eclipse Mills, terms 2/10, n/30	1,800.00

Received the check of L. Hughes for balance of our invoice of May 8, less discount; and his note at 30 days, with interest at 6%, for balance of his April account, $925.

May 20

The check of L. Hughes, $725.20, deposited on May 18, was returned, marked "no funds." Protest fees, $1.64, were charged to our account by the bank together with the amount of the check. (See cashbook entry of May 18.)

Gave Tower Mfg. Co. a check (No. 82) for invoice of May 1, $8.90.

Left note of W. Hall, received on May 10, at the bank for collection.

May 23

Discounted the note of L. Hughes, dated May 18, at the Wall Street Trust Co.

Issued sales invoices to the following customers:

Cann & Co., 2/10, n/30	$1,062.50
Dublin & Co., 2/10, n/30	1,825.00

May 24

Sold merchandise to F. H. Andrews, Lima, Ohio, terms 3/10, n/60, $367.75. Freight was prepaid (check No. 83), $8.40, and charged to his account.

Received a bill from the Standard Garage for sundry repairs to the delivery truck, $23.70.

The bank reported the note of W. Hall, left for collection on May 20, protested for non-payment. Protest fees, $1.50, were charged to our account by the bank.

May 25

Paid out of petty cash the following: office supplies, $4.75; postage, $5; supplies for auto truck, $2.60; telegrams, $2.85.

Received the following invoices for merchandise purchased:

Bell & Co., terms 2/10, n/30	$1,347.10
Taylor Mfg. Co., Paterson, 2/10, n/30	$ 876.50

Received a check for W. Bradhurst for invoice of May 15, less 2%; and a check from L. Crane for invoice of May 15, less 2%.

Cann & Co. returned a part of merchandise sold to them on May 23. A credit memorandum is issued for $50.50.

Issued sales invoices as follows:

J. Link, 2/10, n/30	$562.70
Miller & Co., trade acceptance 30 days	$600.00

May 26

Gave Mr. Wade a check for $56.20 (No. 84), for traveling expenses paid out of his own personal funds.

Received invoice from Beech & Beck for advertising placed through them, $87.50; terms net cash.

Received trade acceptance dated May 25, at 30 days, from Miller & Co. for our invoice of May 25, $600.

Received a check from L. Hughes for $741.64 to cover balance of invoice of May 8 and protest fees, May 20.

Discounted the trade acceptance received to-day from Miller & Co. and received credit at the Wall Street Trust Co.

May 28

Returned to Taylor Mfg. Co. a part of merchandise purchased on May 25. They issue a credit memorandum for $49.75.

Paid sight draft drawn by Eclipse Mills for their invoice of May 18, less 2% (check No. 85).

Gave Jackson Mills check (No. 86) for their invoice of May 18, less 2%.

Paid Beech & Beck, (check No. 87) for invoice of May 27.

Received from W. Hall his note for $601.50, bearing interest at 6%, dated May 24, at 30 days, to cover protested note and fees. (See entry May 24.)

May 30

Paid the Standard Garage, check No. 88, $23.70.

The following invoices were received for merchandise purchased:

Reynolds & Co., terms 2/10, n/30	$487.60
Baldwin Mfg. Co., terms 3/10, n/30	$844.50
H. J. Rolston, Buffalo, N. Y., terms 2/10, n/30	$750.00

Issued a credit memorandum to J. Link for $26.75 for merchandise returned.

Paid out of petty cash the following: postage, $9.60; telegrams, $3.75; stationery, $2.42; office supplies, $1.20.

May 31

Paid two weeks' salaries, check No. 89, as follows:

Mr. Hamilton	$100
Mr. Wade	100
Bookkeeper	55
Chauffeur	45

Received check from Cann & Company for their note and interest due to-day.

Paid the New York Central Railroad Co. check No. 90, for freight and cartage on incoming merchandise for the month, $228.94. Paid the General Transfer Co., check No. 91 for cartage as follows: on incoming merchandise, $31.50; on outgoing merchandise, $34.80; total, $66.30.

Issued sales invoices as follows:

Miller & Co., 2/10, n/30	$478.90
W. Bradhurst, 3/10, n/60	834.75
L. Crane, 2/10, n/30	755.10
F. H. Andrews, 3/10, n/30	425.00

Issued check No. 92 to reimburse the petty cash fund. Proceed as at April 30.

Instructions:

1. Close and summarize all the journals in preparation for final posting. Complete the posting.

2. Take a Trial Balance of the general ledger.

3. Prepare abstracts of the customers' and creditors' ledgers and prove with the controlling accounts.

The books are to be closed at May 31. The following additional facts are to be taken into account:

Merchandise Inventory	$17,600.00
Real Estate at cost	
Public Service 6% Bond, valued at cost	1,000.00
Depreciation:	
On furniture and fixtures, 2% of book value	
On auto truck, 5% of book value	

Provide for a possible loss on accounts receivable equal to 2% of their book value.

Accruals:

Interest Accrued on Notes Receivable	$ 4.05
Interest Accrued on Notes Payable	4.25
Interest Accrued on Investments	7.50
Interest Accrued on Mortgage Payable	54.83
Salary of salesman unpaid	85.00
An expense bill of salesman amounting to	39.60

Deferred Charges:

Stationery on hand valued at	$ 19.50
Insurance paid in advance	300.00

Interest is to be adjusted on the partners' capital accounts according to agreement.

Make adjusting journal entries, after which prepare:

1. Working Sheet.
2. Balance Sheet at May 31, 19—.
3. Statement of Profit and Loss for the two months ended May 31, 19—.

Make journal entries to close the ledger.

Post the adjusting and closing entries and close or balance all accounts.

Check the balances of all accounts remaining on the ledger with the Balance Sheet.

Chapter XVI

PARTNERSHIP DISSOLUTION

Causes of partnership dissolution.—A partnership may be dissolved as the result of any one of the following causes:

1. By the admission of a new partner.
2. By the withdrawal of a partner.
3. By the death of a partner.
4. By a partner's being adjudicated insane.
5. By the misconduct of a partner if the court so decrees.
6. By mutual agreement of the partners.
7. By the termination of the partnership.
8. By a change in the legal form of the organization from that of a partnership to that of a corporation.

Partnership dissolution.—A partnership dissolution takes effect whenever there is a change in the personnel of the partnership. A change in personnel may be brought about by the death, insanity, improper conduct, withdrawal, or admission of a partner. The business in such cases is not necessarily discontinued. On the contrary, it is customary to continue the business under a new partnership arrangement. Thus, it will be seen that one of the problems which confronts the bookkeeper is to record the effect of the dissolution of a partnership where the business is continued.

The business, however, is not always continued on the dissolution of a partnership. If the business has been unprofitable in spite of good management, the probabilities are that the remaining partners would elect to liquidate the business rather than continue it, in which case the business, as such, goes out of existence. The bookkeeper, of course, should be familiar with the recording of the liquidation of a business.

There is still another problem which confronts the bookkeeper; that is, the recording of the sale of a partnership as a

going concern. This situation usually arises upon a change in the legal organization from that of a partnership to that of a corporation.

Dissolution—Continuation of business after change in personnel.—This situation usually arises as the result of the withdrawal of a partner or the admission of a new partner.

Withdrawal of a Partner

Illustration.—When the retiring partner receives the amount of his investment.

For the purpose of illustration, let it be assumed that James Clark, Alfred Jones, and Edward Brown are partners in the firm of Clark & Jones, whose balance sheet at June 30, 19— is shown below. The partners have shared profits and losses equally. It is agreed that Clark is to retire as a partner, on receipt of the amount invested by him on June 30, payable $5,000 in cash and the balance in an interest-bearing note maturing in six months. Jones and Brown are to continue the business under the old firm name of Clark & Jones.

CLARK & JONES
Balance Sheet, June 30, 19—

Assets			*Liabilities*		
Cash		$10,000	Accounts Payable		$ 9,000
Accounts Receivable	$40,000		Notes Payable		5,000
Less Reserve for Bad Debts	4,000	36,000	Total Liabilities		14,000
Notes Receivable		4,000	*Proprietorship*		
Merchandise Inventory		22,000	James Clark	$30,000	
Furniture & Fixtures	1,000		Alfred Jones	20,000	
Less Reserve for Depr.	250	750	Edward Brown	10,000	
Auto Trucks	2,000		Total Proprietorship		60,000
Less Reserve for Depr.	750	1,250			
		$74,000			$74,000

The entry which, in effect, records the dissolution of the old firm and the formation of the new is as follows:

James Clark, Capital	$30,000	
Cash		$ 5,000
Notes Payable		25,000
To record the withdrawal of James Clark as a partner in the firm and the payment made to him.		

Illustration.—Recording the goodwill on the books of a firm on the retirement or withdrawal of a partner.

If the business of Clark & Jones yielded a substantial profit in the past, the business will have a goodwill value. Assume that, on the retirement of James Clark on June 30, 19—, the partners place a value of $12,000 upon the goodwill of the business. Clark, naturally, would be entitled to his share of the goodwill; and the goodwill, accordingly, would be recorded on the books. The entries recording the goodwill and the withdrawal of Clark follow:

	June 30		
	Goodwill	12,000	
	James Clark, Capital		4,000
	Alfred Jones, Capital		4,000
	Edward Brown, Capital		4,000
	To record the goodwill on the retirement of James Clark as a partner and to credit the partners' capital accounts on the profit- and loss-sharing ratio.		
	—30—		
	James Clark, Capital	34,000	
	Cash		5,000
	Notes Payable		29,000
	To record the withdrawal of James Clark as a partner and the payment made to him.		

Admission of a Partner

The entries recording the dissolution of a partnership by admission of a new partner have been explained and illustrated in Chapter XIII.

Dissolution by liquidation.—A partnership is said to *liquidate* when the partners either voluntarily or involuntarily discontinue the business. In such cases, it is customary for the partners to sell the assets in order to liquidate (that is, to pay) the liabilities, and to distribute among themselves whatever cash remains, in proportion to their respective investments at the time of liquidation.

The liquidator, whether he be a partner or an outsider, should pay all unsecured liabilities in the order shown at the top of the next page:

1. Taxes.
2. Wages.
3. Firm Creditors.
4. Loans of Partners.

It should be noted that the secured creditors, such as mortgagees, would be paid from the proceeds realized on the sale of property pledged to secure their claims.

Illustration.—For the purpose of illustration, let us again consider the case of Clark & Jones, whose members agree to dissolve the partnership and to liquidate the affairs of the firm. It will be remembered that the partners shared profits and losses equally. The Balance Sheet of Clark & Jones at June 30, 19—, follows:

CLARK & JONES
Balance Sheet, June 30, 19—

Assets			*Liabilities*		
Cash		$10,000	Accounts Payable		$ 9,000
Accounts Receivable	40,000		Notes Payable		5,000
Less Reserve for Bad Debts	4,000	36,000	Total Liabilities		14,000
Notes Receivable		4,000	*Proprietorship*		
Merchandise Inventory		22,000	James Clark	$30,000	
Furniture and Fixtures	1,000		Alfred Jones	20,000	
Less Reserve for Depreciation	250	750	Edward Brown	10,000	
Auto Trucks	2,000		Total Proprietorship		60,000
Less Reserve for Depreciation	750	1,250			
		$74,000			$74,000

The following additional information must be considered:

The accounts receivable realized $33,500, and the balance proved uncollectible; the notes receivable realized $3,850, the balance being worthless; merchandise inventory was sold for $23,500; furniture and fixtures brought $250, and the auto trucks, $500. The liabilities were paid in full and the partners' Capital accounts were closed.

The entries recording the liquidation of the firm follow:

Journal, June 30, 19—

Reserve for Depreciation of Furn. and Fixtures.	250 00			
Reserve for Depreciation of Auto Trucks.....	750 00			
Furniture and Fixtures.....			250	00
Auto Trucks.....			750	00
To close the reserve accounts so as to show the book values of the fixed assets preparatory to liquidation. —30—				
Cash.....	61,600 00			
Accounts Receivable.....			33,500	00
Notes Receivable.....			3,850	00
Merchandise Inventory.....			23,500	00
Furniture and Fixtures.....			250	00
Auto Trucks.....			500	00
To record the amount realized on the above assets. —30—				
Accounts Payable.....	9,000 00			
Notes Payable.....	5,000 00			
Cash.....			14,000	00
To record the liquidation of the firm debts. —30—				
Reserve for Bad Debts.....	4,000 00			
Profit and Loss.....	2,500 00			
Accounts Receivable.....			6,500	00
To close the Reserve for Bad Debts account and to transfer the loss on accounts receivable to the Profit and Loss account. —30—				
Profit and Loss.....	1,400 00			
Notes Receivable.....			150	00
Furniture and Fixtures.....			500	00
Auto Trucks.....			750	00
To close the above accounts and to transfer the loss on realization to profit and loss. —30—				
Merchandise Inventory.....	1,500 00			
Profit and Loss.....			1,500	00
To transfer the profit on sale of merchandise inventory to profit and loss. —30—				
James Clark, Capital.....	800 00			
Alfred Jones, Capital.....	800 00			
Edward Brown, Capital.....	800 00			
Profit and Loss.....			2,400	00
To close the Profit and Loss account and to distribute the net loss on liquidation in the profit- and loss-sharing ratio. —30—				
James Clark, Capital.....	29,200 00			
Alfred Jones, Capital.....	19,200 00			
Edward Brown, Capital.....	9,200 00			
Cash.....			57,600	00
To distribute the cash and to close the partners' Capital accounts.				

Dissolution by sale of business as a going concern.—Instead of liquidating the business on the dissolution of a partnership, as has just been illustrated, the business may be sold as a going concern. In this case, the business would be continued under a different ownership.

Illustration.—Recording the sale of a business as a going concern for an amount in excess of the total net worth.

For the purpose of illustration, let it be assumed that the members of the firm of Clark & Jones agree to sell the business of the firm, except the cash, to the Johnson Trading Company, in consideration of $62,000, payable in cash. Profits and losses were shared equally by the partners.

The Balance Sheet of Clark & Jones follows:

CLARK & JONES
Balance Sheet, June 30, 19—

Assets			*Liabilities*		
Cash		$10,000	Accounts Payable		$ 9,000
Accounts Receivable	$40,000		Notes Payable		5,000
Less Reserve for Bad Debts	4,000	36,000	Total Liabilities		14,000
Notes Receivable		4,000	*Proprietorship*		
Merchandise Inventory		22,000	James Clark	$30,000	
Furniture and Fixtures	1,000		Alfred Jones	20,000	
Less Reserve for Depreciation	250	750	Edward Brown	10,000	
Auto Trucks	2,000		Total Proprietorship		60,000
Less Reserve for Depreciation	750	1,250			
		$74,000			$74,000

Solution

Since the total capital of the firm is $60,000, and since cash $10,000 is not to be transferred, it follows that the firm is selling to the Johnson Trading Company a business valued at $50,000, for which it receives $62,000 cash, or $12,000 in excess of the net value of the properties transferred. This excess amount represents the goodwill value of the business.

The entries recording the sale of the business follow:

Journal, June 30, 19—

Goodwill	12,000 00		
James Clark, Capital			4,000 00
Alfred Jones, Capital			4,000 00
Edward Brown, Capital			4,000 00
To record the goodwill on the books and to credit the partners' capital accounts on the profit-and-loss-sharing ratio on the sale of the business—except cash.			
—30—			
Johnson Trading Company	81,000 00		
Accounts Receivable			40,000 00
Notes Receivable			4,000 00
Merchandise Inventory			22,000 00
Furniture and Fixtures			1,000 00
Auto Trucks			2,000 00
Goodwill			12,000 00
To close the asset accounts and to transfer the right, title, and interest to the Johnson Trading Company.			
—30—			
Reserve for Bad Debts	4,000 00		
Reserve for Depreciation of Furn. and Fix.	250 00		
Reserve for Depreciation of Auto Trucks	750 00		
Accounts Payable	9,000 00		
Notes Payable	5,000 00		
Johnson Trading Company			19.000 00
To transfer the reserves and the liabilities assumed by the Johnson Trading Co. as per bill of sale dated June 30, 19—.			
—30—			
Cash	62,000 00		
Johnson Trading Company			62,000 00
To record receipt of cash in payment of the net assets transferred.			
—30—			
James Clark, Capital	34,000 00		
Alfred Jones, Capital	24,000 00		
Edward Brown, Capital	14,000 00		
Cash			72,000 00
To distribute the cash and to close the partners' Capital accounts.			

Illustration.—Recording the sale of a business as a going concern for an amount less than the total capital; that is, at a loss.

Assume that the conditions are the same as in the previous illustration, except that the business is sold for $38,000, instead of $62,000.

Solution

Since the total capital of the firm is $60,000 and since cash $10,000 is not to be transferred, it follows that the firm is selling to the Johnson Trading Company a business valued at $50,000, for which it receives $38,000, or $12,000 less than the net value of the properties transferred. This amount represents the loss on the sale of the business and is charged against the partners on the profit-and-loss-sharing ratio:

The entries follow:

Journal, June, 30, 19—

Johnson Trading Company		38,000 00		
Reserve for Bad Debts		4,000 00		
Reserve for Depreciation of Furn. and Fix.		250 00		
Reserve for Depreciation of Auto Trucks		750 00		
Accounts Payable		9,000 00		
Notes Payable		5,000 00		
Profit and Loss		12,000 00		
Accounts Receivable			40,000	00
Notes Receivable			4,000	00
Merchandise Inventory			22,000	00
Furniture and Fixtures			1,000	00
Auto Trucks			2,000	00
To record the sale of the business, except cash, to the Johnson Trading Company and the loss on the sale of the business.				
—30—				
Cash		38,000 00		
Johnson Trading Company			38,000	00
To record receipt of cash.				
—30—				
James Clark, Capital		4,000 00		
Alfred Jones, Capital		4,000 00		
Edward Brown, Capital		4,000 00		
Profit and Loss			12,000	00
To distribute the loss on sale of business in the profit- and loss-sharing ratio.				
—30—				
James Clark, Capital		26,000 00		
Alfred Jones, Capital		16,000 00		
Edward Brown, Capital		6,000 00		
Cash			48,000	00
To distribute the cash and to close the Capital accounts.				

Changing from a partnership to a corporation.—When a partnership changes to the corporate type of business organization, the effect upon the accounts of the partnership is the

same as that of the sale of the business as a going concern. This subject will be discussed more fully in a later chapter.

Review Questions

1. Name as many ways as you can by which a partnership is dissolved.

2. Must a business be discontinued when the partnership organization that has been conducting it is dissolved? Why?

3. When a partner retires with the consent of the other partner or partners, what is the simplest way of determining the amount to which he is entitled?

4. Why is goodwill sometimes taken into account and placed upon the books upon the withdrawal of one of the partners?

5. *A* and *B* are partners. *B* dies; and his son *H*, who is *B*'s sole heir, claims to be a partner with *A*. What is your answer? What must be done?

6. What is meant by "liquidating" a partnership?

7. Name, in order, the claims which must be paid upon liquidation of a partnership business.

8. When a partnership business is sold as a going concern, how is the profit or the loss realized by the sale divided between the former partners?

Exercises

1. R. Briggs, E. Folsom, and D. Small are partners. Their Capital accounts show the following balances at June 1, 19—: Briggs, $6,000; Folsom, $8,500, and Small, $7,000. With the consent of the others, Small sells his interest to H. Peters, who then becomes a partner. Briggs invests an additional $1,000 cash, and Folsom takes the firm's 6-months' note to reduce his investment and to equalize the capital. Show the required entries.

2. H. Brown, M. Olsen, and C. Gaines are partners, their Capital accounts showing investments of $5,000, $3,500, and $6,500, respectively. Olsen withdraws, and Brown and Gaines

continue the business as partners. Olsen receives $2,500 cash and a 3-months' note, with interest, for the balance of his share. Show the necessary entries.

3. S. King, W. Long, and K. Bates are partners, sharing profits and losses equally. Bates retires from the partnership on May 1, 19—, with the consent of the other partners. It is agreed that goodwill shall be placed upon the books at a valuation of $9,000 and that Bates is then to receive his share in cash. The following is the Balance Sheet at May 1. Show all necessary entries.

KING, LONG & BATES
Balance Sheet, May 1, 19—

Assets		*Liabilities*	
Cash	$12,500.00	Notes Payable	$ 2,500.00
Notes Receivable	3,600.00	Accounts Payable	7,300.00
Accounts Receivable	9,400.00	Total Liabilities	$ 9,800.00
Merchandise Inventory	10,200.00	*Proprietorship*	
Store Fixtures	1,000.00	S. King, Capital	11,500.00
Delivery Equipment	1,200.00	W. Long, Capital	9,500.00
		K. Bates, Capital	7,100.00
	$37,900.00		$37,900.00

4. The following Trial Balance was taken from the general ledger of Stone & Webber, after closing the books at July 31, 19—:

Debits		*Credits*	
Cash	$ 2,560.00	Notes Payable	$ 5,000.00
Notes Receivable	1,800.00	Accounts Payable	8,675.00
Accounts Receivable	29,500.00	Reserve for Depreciation-Motor Truck	200.00
Merchandise Inventory	6,240.00	Reserve for Bad Debts	1,450.00
Fixtures	450.00	B. Stone, Capital	12,000.00
Motor Truck	1,200.00	R. Webber, Capital	14,520.00
Insurance Prepaid	80.00		
Accrued Int. Receivable	15.00		
	$41,845.00		$41,845.00

By a contract of sale executed on August 1, the business of Stone & Webber is sold to R. F. Ross, who takes over all the assets (except cash) at the following valuations: notes receivable, $1,800; accounts receivable, $27,000; merchandise inventory, $5,750; fixtures, $300; motor truck, $800; unexpired

insurance, $80; accrued interest receivable, $15. Ross pays $3,000 for goodwill and agrees to pay the notes payable and accounts payable.

Assuming that settlement in cash is made on August 1, show all necessary entries to close the books of Stone & Webber. (The partners share profits and losses equally.)

5. A. Adams and B. Brown close their books on December 31, 19—. The following Balance Sheet shows the condition of the business:

ADAMS & BROWN
Balance Sheet, Dec. 31, 19—

Assets		*Liabilities*	
Plant and Machinery	$15,400.00	Accounts Payable	$30,000.00
Inventory	36,000.00	Notes Payable	10,000.00
Accounts Receivable	28,000.00	Total Liabilities	40,000.00
Cash in Bank	5,600.00	*Proprietorship*	
		A. Adams, Capital	30,000.00
		B. Brown, Capital	15,000.00
	$85,000.00		$85,000.00

The business, as it stands (except cash in the bank), is sold for $30,000 cash, the buyer assuming the liabilities. Show all entries to close the books of Adams & Brown. Profits and losses are shared in proportion to invested capital.

Chapter XVII

BUSINESS PRACTICES AND FORMS

Introductory.—In the preceding chapters the manner in which the bookkeeper records transactions in the different journals and then transfers them to accounts in the ledger has been illustrated and explained. It remains, therefore, to illustrate and explain the sources of information from which the bookkeeper makes entries in the different journals.

The duties of the bookkeeper are usually confined to the recording of transactions. As a rule, he is not engaged in the purchasing, receiving, selling, or shipping of goods. Consequently, he must be informed regarding these and other activities of the business in order that he may properly record all transactions.

In a large business undertaking, the activities of the business are divided into departments. Thus the activities of a trading business may be divided into the following departments:

1. Purchasing Department.
2. Receiving Department.
3. Sales and Order Department.
4. Shipping Department.
5. Accounting Department.
6. Executive Department.

There may be numerous other departments, depending upon the type and size of the business.

All instructions and orders in business are usually given in writing. As a rule, printed forms are used for giving instructions. These forms and other business papers are the bookkeeper's authority for making entries in the different journals.

In this and the following chapter the more important forms and papers used by each department, and the sources of in-

formation from which the bookkeeper makes entries, as well as the business practice of each department, will be illustrated and explained.

Purchasing department.—The purchasing department issues a formal order known as the purchase order for each purchase made. Purchase orders, like all other business papers, vary in size and form to meet the individual needs of a business. These orders are usually numbered and are issued in duplicate or triplicate. If issued in duplicate, the original is sent to the concern with whom the order is to be placed, the duplicate being retained by the purchasing department; if issued in triplicate, the triplicate copy is sent to the receiving department and serves as a notice of goods to be received.

The following is an illustration of a purchase order issued in duplicate:

OFFICE COPY No. 14

American Steel Pipe Inc.

146 COIT STREET, IRVINGTON, N. J.

PURCHASE ORDER No. 14

American Steel Pipe Inc.

146 COIT STREET, IRVINGTON, N. J.

January 2, 19-

To American Metal Moulding Company
146 Coit Street
Irvington, N. J.

PLEASE FURNISH US WITH THE FOLLOWING MATERIAL

Quantity	Description	Price
10,000 ft.	14/2 Armored Cable	$30 per M

Ship to American Steel Pipe Inc.
567 W. Lake Street
Chicago, Ill.

Ship via N.Y.C.R.R. Co.

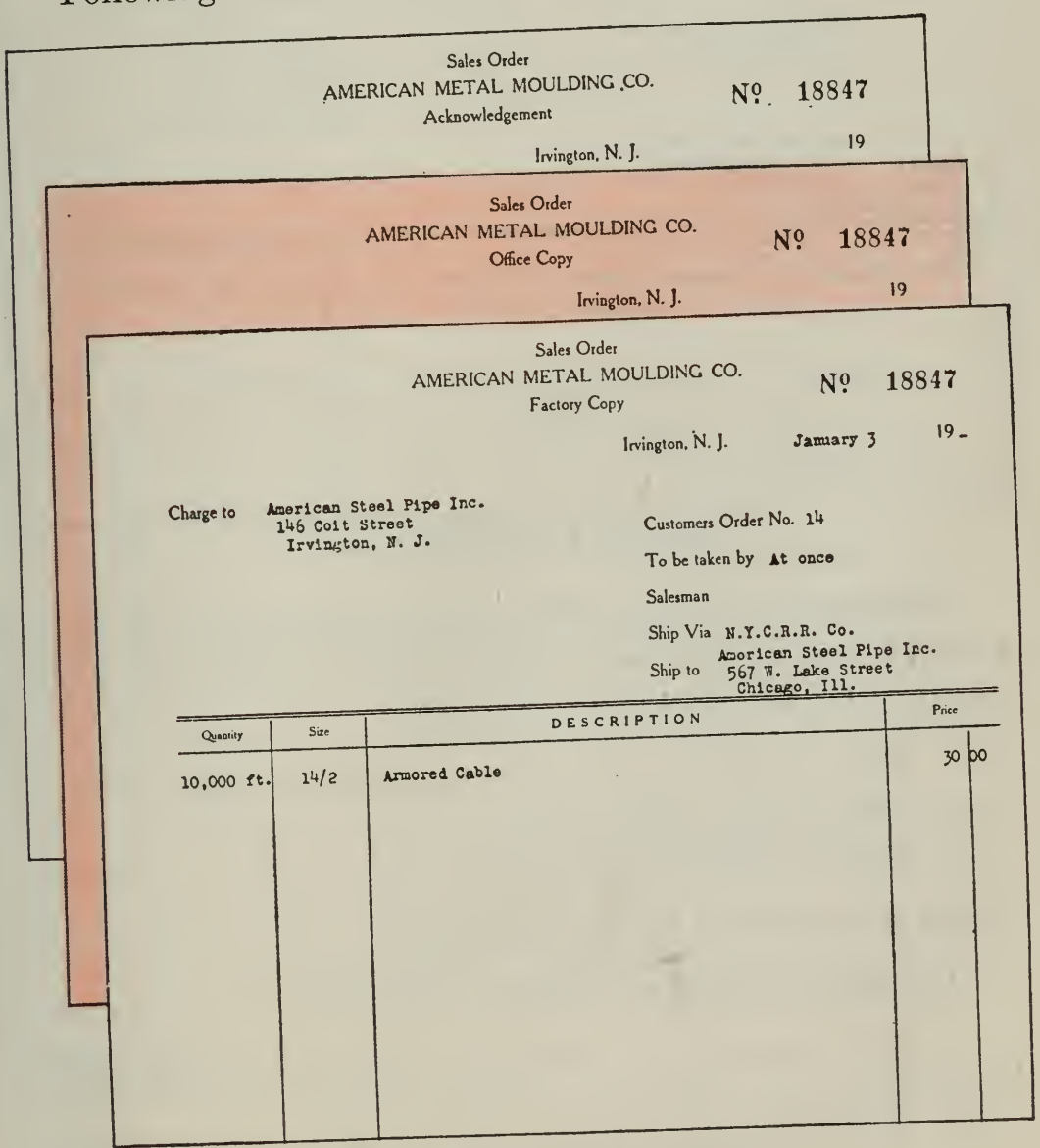
AMERICAN STEEL PIPE INC.

Per_____

Form No. 1.—Purchase Order in Duplicate.

Sales and order department.—When goods are sold, instructions must be given to the shipping department to make shipment of the goods. A special form is used for this purpose, known as the "sales order" form. This form is issued by the order clerk who receives all orders taken by the salesmen or those sent in direct by customers. Usually two or more copies of each sales order are made. The original is sent to the shipping department, the duplicate is retained by the order clerk, and the triplicate copy is sent to the customer and serves as an acknowledgment of the receipt of the order.

Following is an illustration of a sales order in triplicate:



Sales Order
AMERICAN METAL MOULDING CO. No. 18847
Acknowledgement
Irvington, N. J. 19

Sales Order
AMERICAN METAL MOULDING CO. No 18847
Office Copy
Irvington, N. J. 19

Sales Order
AMERICAN METAL MOULDING CO. No 18847
Factory Copy
Irvington, N. J. January 3 19-

Charge to American Steel Pipe Inc.
146 Coit Street
Irvington, N. J.

Customers Order No. 14
To be taken by At once
Salesman
Ship Via N.Y.C.R.R. Co.
Ship to American Steel Pipe Inc.
567 W. Lake Street
Chicago, Ill.

Quantity	Size	DESCRIPTION	Price
10,000 ft.	14/2	Armored Cable	30 00

Form No. 2.—Sales Order in Triplicate.

Receiving department.—It is the function of this department to receive all incoming shipments of merchandise and other goods. Each incoming shipment of goods purchased is usually accompanied by an invoice known as the purchase invoice. (See form No. 3.)

Form 2

NEW YORK BOSTON CHICAGO PHILADELPHIA ATLANTA SAN FRANCISCO

AMERICAN METAL MOULDING CO.

MANUFACTURERS OF

ARMORED CABLE, FLEXIBLE STEEL CONDUITS, ARMORED HOSE

BRANCH FACTORY
567 W. LAKE STREET
CHICAGO, ILL

MAIN OFFICE & FACTORY
146 COIT STREET
IRVINGTON, N. J.

POSITIVELY NO DISCOUNT ALLOWED UNLESS PAID WITHIN 10 DAYS FROM DATE OF INVOICE

Charge to

American Steel Pipe Inc.
146 Coit Street
Irvington, N. J.

Date Shipped January 5, 19-
Refer to Invoice No. C 20
Our Order No. 18847
Shipping Memo No. 22604
Salesman
Terms 5/10, net 30

Shipped to
Address
Via N.Y.C.R.R. Co.

American Steel Pipe Inc.
567 W. Lake Street
Chicago, Ill.

Your Order No.					
14	10,000 ft.	14/2 Armored Cable	$30	00	$300

Form No. 3.—Purchase Invoice.

The purchase invoice, when properly approved, is the bookkeeper's authority for recording purchase transactions. Every purchase invoice should be approved:

1. As to quantity and quality of goods received,
2. As to terms and prices,
3. As to extensions and totals,

before it is recorded by the bookkeeper.

Purchase invoices are usually approved:

1. As to quantity and quality by the one who receives the shipment,
2. As to prices and terms by the one who orders the goods,

3. As to extensions and totals by someone in the accounting department whose duty it is to check extensions and totals on purchase invoices.

The following is an illustration of a rubber stamp used for approving purchase invoices:

Received by,..... Date.....

Quantity and Quality Approved by,.....

Terms and Prices Approved by,.....

Extensions and Totals Approved by,.....

Purchase Record Folio,..... Charge,.....

Date of Payment,..... Approved,.....

Payment Recorded,.....

Form No. 4.—Approval Stamp.

But not all incoming shipments represent a purchase of merchandise or other goods. Occasionally a shipment is received from a customer who for some reason is returning merchandise previously shipped to him.

On receipt of the merchandise returned by a customer, a form known as a receiving ticket (see form No. 5) is issued by the one who receives the shipment. The receiving ticket is usually issued in numerical sequence so that the accounting department may know whether or not all of the tickets issued have been properly recorded.

A copy of every receiving ticket which may be issued in duplicate or triplicate is sent to the accounting department, where a credit memorandum is issued and sent to the customer who returned the merchandise. A carbon copy of the credit memorandum is used by the bookkeeper for making the sales return record.

A credit memorandum is usually an ordinary invoice form with the words "credit memorandum" printed on the face of the form.

RECEIVING TICKET NO. 388

AMERICAN METAL MOULDING CO.

DATE *March* 22, 19

RECEIVED FROM: *Norfolk Electric Supply Co.*

ROUTED VIA: *Norfolk, Va.*

CHARGES PAID.....

PACKAGES	QUANTITY	DESCRIPTION	PACKAGES ITEMIZED
2 *Coils*	500	*Ft.* 14-2 *American Armored*	
		Cable	

Form No. 5.—Receiving Ticket.

An illustration of a receiving ticket appears on page 254; a reproduction of a credit memorandum follows:

Form 2

NEW YORK BOSTON CHICAGO PHILADELPHIA ATLANTA SAN FRANCISCO

AMERICAN METAL MOULDING CO.

MANUFACTURERS OF

ARMORED CABLE, FLEXIBLE STEEL CONDUITS, ARMORED HOSE

BRANCH FACTORY
567 W. LAKE STREET
CHICAGO, ILL.

MAIN OFFICE & FACTORY
146 COIT STREET
IRVINGTON, N. J. March 22, 1923.

POSITIVELY NO DISCOUNT ALLOWED UNLESS PAID WITHIN 10 DAYS FROM DATE OF INVOICE

Charge to

NORFOLK ELECTRIC SUPPLY CO.,
NORFOLK, VA.

Date Shipped
Refer to Invoice No.
Our Order No.
Shipping Memo No.
Salesman
Terms

Shipped to
Address
Via

Your Order No.		CREDIT MEMORANDUM			
	500	ft. 14/2 American Armored Cable	$ 58	-	$29.-

Form No. 6.—Credit Memorandum.

Shipping department.—It is the function of this department to make shipments to customers as per instructions contained in the sales orders, and, where merchandise or other goods purchased is to be returned, to make shipments to the creditors.

When goods are shipped, the shipping clerk issues a form, known as a shipping memorandum (see form No. 7) or by some other name, for each shipment made by him. Usually two separate forms are used to distinguish between shipments made to customers and shipments made to creditors of merchandise or other goods returned.

Shipping memoranda vary in form to meet the individual needs of a business. The shipping memoranda, like the receiving tickets, are issued in numerical sequence so that the accounting department may know whether or not it has received all of the tickets issued by the shipping clerk.

The shipping memorandum is usually issued in triplicate. The original is sent to the accounting department, where the

FORM No. 4

No. 22604

SHIPPING MEMORANDUM

AMERICAN METAL MOULDING CO.

146 COIT STREET

FORM No. 4

No. 22604

SHIPPING MEMORANDUM

AMERICAN METAL MOULDING CO.

146 COIT STREET

FORM No. 4

No. 22604

SHIPPING MEMORANDUM

AMERICAN METAL MOULDING CO.

146 COIT STREET

Irvington, N. J., January 5 192

Charge to American Steel Pipe Inc.

Address 146 Coit Street, Irvington, N.J.

Shipped to American Steel Pipe Inc. Invoice No. C 20

Address 567 W. Lake Street, Chicago, Ill. Salesman

Via N.Y.C.R.R. Co. Customer's Order No. 14

Driver Jones Our Order No. 18847

Bundle	Feet	Bundle	Feet					
1	250	1	250					
1	250	1	250					
1	250	1	250					
1	250	1	250					
1	250	1	250					
1	250	1	250					
1	250	1	250					
1	250	1	250					
1	250	1	250					
1	250	1	250					
1	250	1	250					
1	250	1	250					
1	250	1	250					
1	250	1	250					
1	250	40	10000					
1	250							
1	250							
1	250							
1	250							
1	250							
1	250							
1	250							
1	250							
1	250							
1	250							
1	250							
1	250							
1	250							
1	250							

ADDED BY

CHECKED BY

Form No. 7.—Shipping Memorandum in Triplicate.

sales invoice (see form No. 8) is written and the sales record is made. The duplicate is attached to the invoice and sent to the customer, and the triplicate is used as a receipt where delivery is made direct to the customer.

Usually two or more copies of each invoice are made. A copy of each sales invoice is sent to the bookkeeping department and serves as a basis for making the sales records.

Form 2

NEW YORK BOSTON CHICAGO PHILADELPHIA ATLANTA SAN FRANCISCO

AMERICAN METAL MOULDING CO.

MANUFACTURERS OF

ARMORED CABLE, FLEXIBLE STEEL CONDUITS, ARMORED HOSE

BRANCH FACTORY
887 W. LAKE STREET
CHICAGO, ILL.

MAIN OFFICE & FACTORY
146 COIT STREET
IRVINGTON, N. J.

POSITIVELY NO DISCOUNT ALLOWED UNLESS PAID WITHIN 10 DAYS FROM DATE OF INVOICE

Charge to

American Steel Pipe Inc.
146 Coit Street
Irvington, N. J.

Date Shipped January 5, 19-
Refer to Invoice No. C 20
Our Order No. 18847
Shipping Memo No. 22604
Salesman
Terms 5/10, net 30

Shipped to
Address
Via N.Y.C.R.R. Co.

American Steel Pipe Inc.
567 W. Lake Street
Chicago, Ill.

Your Order No.					
14	10,000 ft.	14/2 Armored Cable	$30	00	$300

Form No. 8.—Sales Invoice.

On page 256 is shown a shipping memorandum issued in triplicate; on this page, a sales invoice.

Shipping memoranda covering merchandise returned to creditors are similar in form to those used for shipments made to customers. They also are numbered and, when issued, are sent to the accounting department, where the invoice is written and the purchase returns record is made. A carbon copy of the invoice is used by the bookkeeper for making the purchase returns record.

It is a common business practice always to take a receipt whenever delivery is made of goods shipped.

Delivery of merchandise may be made direct to the customer by a truck belonging to the shipper, or delivery may be made to a common carrier, such as an express company, steamship company, or railroad company. In any event, a receipt must be taken from the party to whom the delivery of the goods is made.

Usually a special form of receipt is used for deliveries made direct to the customer. These forms vary to meet the individual needs of a business. Thus, the triplicate shipping memorandum (see form No. 7) is used as a receipt by the company whose form is illustrated.

When goods are delivered to an express company to be forwarded to the customer, an express receipt is issued.

When goods are delivered to a railroad or steamship company to be forwarded to the customer, a receipt known as a bill of lading is issued. (See form No. 9.)

The bill of lading is a contract between the shipper and the carrier of goods and, when properly signed, constitutes the shipper's receipt for delivery made to the transportation company.

By act of the Interstate Commerce Commission, of June 27, 1908, the use of standard forms of bills of lading by all transportation companies is made compulsory. There are two standard forms of bills of lading, the straight bill of lading, which is not negotiable, and the order bill of lading, which is negotiable.

The straight bill of lading is the one most commonly used. It is used for shipments consigned direct to customers. It is usually issued in sets of three, known as the original, the shipping order, and the memorandum. The original is signed by both the shipper and the carrier and is retained by the shipper as a receipt for delivery made to the carrier. The memorandum copy is also signed by both the shipper and the carrier, and is usually sent by the shipper to the customer and serves as a notice of shipment. The common practice is to attach the shipping memorandum to the invoice covering the shipment made to the customer. The shipping order is signed by the shipper and is retained by the carrier.

An illustration of a straight bill of lading follows:

PRINTED IN U. S. A. F. T. O. NO. 8 (OLD F. T. O. NO. 24) 2nd SHEET
Uniform Domestic Straight Bill of Lading Adopted by Carriers in Official, Southern and Western Classification Territories, March 15, 1922

THIS SHIPPING ORDER must be legibly filled in, in Ink, in Indelible Pencil, or in Carbon, and retained by the Agent.

Shipper's No.

Agent's No.

NEW YORK CENTRAL LINES

THE NEW YORK CENTRAL RAILROAD COMPANY

RECEIVE, subject to the classifications and tariffs in effect on the date of issue of this Shipping Order,

PRINTED IN U. S. A. F. T. O. NO. 8 (OLD F. T. O. NO. 24) 1st SHEET
Uniform Domestic Straight Bill of Lading Adopted by Carriers in Official, Southern and Western Classification Territories, March 15, 1922

UNIFORM STRAIGHT BILL OF LADING

(PRESCRIBED BY THE INTERSTATE COMMERCE COMMISSION)

ORIGINAL—NOT NEGOTIABLE

Shipper's No.

Agent's No.

NEW YORK CENTRAL LINES

THE NEW YORK CENTRAL RAILROAD COMPANY

RECEIVED, subject to the classifications and tariffs in effect on the date of the issue of this Original Bill of Lading.

at ...Newark, N. J. January 5, 19—

from ...American Metal Moulding Company, Irvington, N. J.

the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as indicated below, which said company (the word company being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of delivery at said destination, if on its own road or its own water line, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions not prohibited by law, whether printed or written, herein contained, including the conditions on back hereof, which are hereby agreed to by the shipper and accepted for himself and his assigns.

Consigned to...American Steel Pipe Inc. (Mail or street address of consignee—For purposes of notification only.)

Destination.....567 W. Lake St., Chicago State of...Illinois County of....Cook

Route .....

..... (Delivering carrier.) Car Initials..... Car No.....

No. Packages	DESCRIPTION OF ARTICLES, SPECIAL MARKS, AND EXCEPTIONS	*WEIGHT (Subject to Correction)	CLASS OR RATE	CHECK COLUMN
40	Bundles of Armored Cable	2,800		

If this shipment is to be delivered to the consignee without recourse on the consignor, the consignor shall sign the following statement:

The carrier shall not make delivery of this shipment without payment of freight and all other lawful charges. **(See section 7 of conditions.)**

.....
(Signature of Consignor)

If charges are to be prepaid write or stamp here, "To be Prepaid."

.....

Received $.....
to apply in prepayment of the charges on the property described hereon.

.....
Agent or Cashier

Per .....
(The signature here acknowledges only the amount prepaid.)

Charges advanced:

$.....

*If the shipment moves between two ports by a carrier by water, the law requires that the Bill of Lading shall state whether it is "carrier's or shipper's weight."

NOTE.—Where the rate is dependent on value, shippers are required to state specifically in writing the agreed or declared value of the property.

The agreed or declared value of the property is hereby specifically stated by the shipper to be

not exceeding.....$300..... .....per .....

.....American Metal Moulding Company...Shipper .....Agent.

Per..... Per.....

Permanent post-office address of shipper, ...

PRINTED IN U. S. A. BY A. T. HOWARD CO., RAILROAD PRINTERS, 9 KNAPP ST., BOSTON, MASS.

Form No. 9.—Straight Bill of Lading.

PRINTED IN U. S. A. F. T. O. No. 8 OLD F. T. O. NO. 248 SIZE 8½x11

Uniform Domestic Order Bill of Lading Adopted by Carriers in Official, Southern and Western Classification Territories, March 15, 1922.

THIS SHIPPING ORDER must be legibly filled in, in Ink, in Indelible Pencil, or in Carbon, and retained by the Agent.

Shipper's No.....

Agent's No.....

NEW YORK CENTRAL LINES

THE NEW YORK CENTRAL RAILROAD COMPANY

RECEIVE, subject to the classifications and tariffs in effect on the date of the issue of this Shipping Order.

PRINTED IN U. S. A. F. T. O. No. OLD F. T. O. NO. 248 SIZE 8½x11

Uniform Domestic Order Bill of Lading Adopted by Carriers in Official, Southern and Western Classification Territories, March 15, 1922

UNIFORM ORDER BILL OF LADING

(PRESCRIBED BY THE INTERSTATE COMMERCE COMMISSION)

ORIGINAL

Shipper's No.....

Agent's No.....

NEW YORK CENTRAL LINES

THE NEW YORK CENTRAL RAILROAD COMPANY

RECEIVED, subject to the classifications and tariffs in effect on the date of the issue of this Bill of Lading.

at Newark, N. J. January 5 19--.

from American Metal Moulding Company, Irvington, N. J.

the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown,) marked, consigned, and destined as indicated below, which said company (the word company being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of delivery at said destination, if on its own road or its own water line, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions not prohibited by law, whether printed or written, herein contained, including the conditions on back hereof, which are hereby agreed to by the shipper and accepted for himself and his assigns.

The surrender of this Original ORDER Bill of Lading properly indorsed shall be required before the delivery of the property. Inspection of property covered by this bill of lading will not be permitted unless provided by law or unless permission is indorsed on this original bill of lading or given in writing by the shipper.

(Mail or street address of consignee—For purposes of notification only.)

Consigned to ORDER OF Ourselves

Destination Chicago State of Illinois County of Cook

Notify American Steel Pipe Inc.

At 567 W. Lake Street, Chicago State of Illinois County of Cook

Route

(Delivering carrier.) Car Initial Car No.

No. Packages	DESCRIPTION OF ARTICLES, SPECIAL MARKS, AND EXCEPTIONS	*WEIGHT (Subject to Correction)	CLASS OR RATE	CHECK COLUMN
40	Bundles of Armored Cable	2,800		

If this shipment is to be delivered to the consignee without recourse on the consignor, the consignor shall sign the following statement:

The carrier shall not make delivery of this shipment without payment of freight and all other lawful charges. (*See section 7 of conditions.*)

(Signature of Consignor)

If charges are to be prepaid, write or stamp here, "To be Prepaid."

Received $ to apply in prepayment of the charges on the property described hereon.

Agent or Cashier.

Per (The signature here acknowledges only the amount prepaid.)

Charges advanced:

$

*If the shipment moves between two ports by a carrier by water, the law requires that the bill of lading shall state whether it is "carrier's or shipper's weight."

NOTE.—Where the rate is dependent on value, shippers are required to state specifically in writing the agreed or declared value of the property.

The agreed or declared value of the property is hereby specifically stated by the shipper to be not exceeding $300 per

American Metal Moulding Company Shipper. Agent.

Per Per

Permanent post-office address of shipper

MANUFACTURED BY A. T. HOWARD CO., RAILROAD PRINTERS, 9 KNAPP ST., BOSTON, MASS.

Form No. 10.—"Order" Bill of Lading.

Occasionally a shipment is to be made C.O.D. (collect on delivery) via freight. Such shipments are usually made subject to the payment of a sight draft with the bill of lading attached. In all such cases the " order " bill of lading should be used. In this form the goods are consigned to the order of the shipper and delivery of the goods is not made until payment is received by the one authorized to collect.

Summary.—The sources of information from which the bookkeeper makes entries covering the purchase and sale of goods and the return of goods purchased and goods sold have been illustrated and explained. It remains therefore to illustrate and explain the sources of information from which the bookkeeper makes entries covering the settlement of accounts.

The settlement of accounts may be made by currency or, as is most frequently the case, by checks or notes known as negotiable instruments. Negotiable instruments will be discussed in the next chapter.

Definitions of terms of sale.—The provisions made in a contract of sale or a contract to sell constitute what are known as the *terms of the contract.* Some of the terms commonly employed in contracts of sales will now be explained, first, as to quantity, price and delivery, and secondly, as to payment for goods sold.

Quantity, Price, and Delivery Terms

C/L—Means carload lots.

L/C/L—Means less than carload lots.

Cost and freight—Means that the charge for freight is included in the price quoted.

C.I.F.—Means that cost, insurance, and freight are included in the price quoted.

F.A.S.—Means that the seller agrees to deliver alongside ship without expense to the buyer.

F.O.B.—Free on board (the conveyance by which the goods are to be transported to the buyer).

F.O.B. Point of Shipment—Means free on board at point of shipment. Unless otherwise provided for, freight is to be borne by the buyer. Automobiles, for example, are usually sold

F.O.B. Point of Shipment, that is, automobiles manufactured at and shipped from Detroit are sold F.O.B. Detroit, which is the point of shipment.

F.O.B. Destination—Means free on board to destination. Unless otherwise provided for, freight charges are to be borne by the seller.

Freight Prepaid—Freight paid in advance.

Terms of Payment

Payable in New York Exchange—Means that, if payment is made by check, the check must be drawn on a bank or banker in New York.

C.B.D.—Means cash before delivery.

C.O.D.—Means cash, or collect, on delivery.

S/D with B/L Attached—Means that the bill of lading is attached to a sight draft on the buyer. This is the usual method of shipping goods C.O.D. by freight.

2/10, n/30—Means that the buyer has the option of making payment within 10 days (from the date of the invoice) and deducting 2%, or making payment in full at the expiration of 30 days.

2/10, R.O.G. n/30—Means that the buyer has the option of making payment within 10 days (of receipt of goods) and deducting 2%, or making payment in full at the expiration of 30 days.

2/10th and 25th, n/60—Means that the buyer has the option of paying invoices dated from the 16th to the 31st and from the 1st to the 15th on or before the tenth day of the month following and the 25th day of the current month, respectively, less 2%, or paying the invoices in full at the expiration of 60 days.

8/10—60; or 8/10—60 extra—Both terms have the same meaning. They mean that 8% discount will be allowed if paid within 10 days after 60 days expire. Such terms are common in the textile business. The invoice is in effect given a 60 days dating after which the discount period of 10 days begins. Thus an invoice dated July 1 under terms of 8/10—60 would be subject to 8% cash discount if paid on or before Sept. 11, which is 70 days from the date of the invoice.

Anticipation allowed at rate of 6%—Means that in addition to the discount, interest will be allowed at the rate of 6% per

annum from the date of payment to the maturity date of the invoice. Thus, an invoice of $5,000, dated July 1, under terms of 8/10 and 60 extra, if paid on July 11 (60 days before it is due) would be subject to 8% discount, $400, and 1% (60 days') interest, $50, on the gross amount, making the net amount payable $4,550.

If paid at any time after July 11, but before the due date, Sept. 11, interest is calculated on the net amount after deducting cash discount. Thus, for example, if the invoice was paid on August 11 (30 days before the due date) the net amount payable would be calculated as follows:

Invoice	$ 5,000
Less 8%	400
Amount after discount	4,600
Less Interest Aug. 11 to Sept. 11	23
Net amount payable	$4,577

Dating—An invoice is given a dating when it bears the date of issue as well as terms designating when the discount period begins. Dating may be expressed as follows: July 1 as of Nov. 1, or July 1, 90 days dating.

E.O.M.—Means "end of month." Thus 2%, E.O.M., means that 2% cash discount is allowed for payment at end of current month.

Chapter XVIII

BUSINESS PRACTICES AND FORMS—Continued

Negotiable Instruments

Introductory.—As explained in a previous chapter, a customer may offer currency in settlement of his account or he may tender a negotiable instrument, such as a check or a note, in settlement of his account. Since in most cases settlement of accounts is made by negotiable instruments such as checks and notes, it follows that the bookkeeper should be familiar with the various forms of negotiable instruments.

Classes of negotiable instruments.—A negotiable instrument is a written contract obligation which can be transferred from hand to hand like money.

Negotiable instruments may be divided into two classes:

1. Written *orders* to pay money. Examples of written orders to pay money are: checks, drafts, bills of exchange, trade acceptances, postal money orders, and express money orders.

2. Written *promises* to pay money. Examples of written promises to pay money are: notes and bonds.

There are three parties to every written order to pay money. They are:

1. The one who signs the order, and who is known as the *drawer.*

2. The one on whom the order is made, and who is known as the *drawee.*

3. The one to whom the payment is to be made, and who is known as the *payee.*

There are only two parties to a written promise to pay money. They are:

1. The one who makes the promise, and who is known as the *maker.*

2. The one to whom the promise is made, and to whom payment is to be made, and who is known as the *payee.*

Requisites of negotiable instruments.—Not every written order or promise to pay money is negotiable.

A check or note or any other written order or promise to pay money must conform with the Uniform Negotiable Instruments law. In this law the requisites of a negotiable instrument are set forth as follows:

1. It must be in writing and signed by the maker of a note or the drawer of a check or draft.
2. It must contain an unconditional promise or order to pay a sum certain in money.
3. It must be payable on demand or at a fixed or determinable future time.
4. It must be payable to order or to bearer.

Forms of indorsement.—Some negotiable instruments may be transferred from hand to hand like money. Negotiable instruments made payable to "bearer" are of this type. Others require the signature of the payee or holder before they can be transferred from hand to hand like money. The signature is written on the back of the negotiable paper and is known as the "indorsement."

Indorsements may be divided into four classes, namely:

1. The indorsement in blank.
2. The indorsement in full.
3. The qualified indorsement.
4. The restrictive indorsement.

The indorsement in blank is made by the payee, who writes his name on the back of the form. Such an instrument becomes a bearer instrument.

.....
A. Reid
.....

BLANK INDORSEMENT

The payee may make an indorsement "in full," in which case he writes on the back of the form "Pay to the order of (inserting the individual's name)" and signs it.

Pay to the order of
F. Brown
A. Reid

INDORSEMENT IN FULL

If the payee or holder wishes to transfer title to negotiable paper without assuming the legal responsibility of an indorser, he may qualify his indorsement by adding the words "without recourse."

Pay to the order of F. Brown
without recourse
A. Reid

QUALIFIED INDORSEMENT

The payee or holder may restrict the use of funds obtained by the indorser by adding a restrictive phrase such as "for collection" or "for deposit" to his indorsement.

Pay to the order of Wall St.
Trust Co. for collection
A. Reid

Pay to the order of Wall St.
Trust Co. for deposit
A. Reid

RESTRICTIVE INDORSEMENT

WRITTEN PROMISES TO PAY MONEY—NOTES

Promissory notes.—A promissory note is an unconditional written promise to pay money at some future time.

As previously explained, notes may be received from customers in settlement of accounts or they may be given to creditors in settlement of accounts. The former are known as notes receivable, the latter as notes payable.

In the illustration of a promissory note on page 267, W. Hall is the maker, and Reynolds and Company is the payee.

On the books of W. Hall these entries are made:

(a) *When the note is issued.*
Reynolds and Company
to Notes Payable

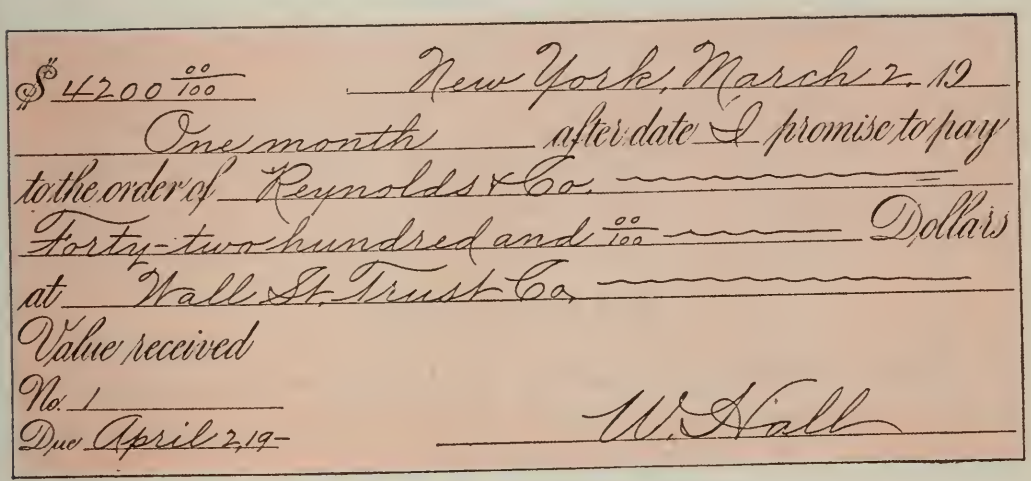
(a) *When the note is received.*
Notes Payable
to Cash

On the books of Reynolds and Company the following entries are made:

(a) *When the note is received.*
Notes Receivable
to W. Hall

(b) *When payment of the note is received.*
Cash
to Notes Receivable

An illustration of the promissory note follows:


$4200 00/100 New York, March 2, 19
One month after date I promise to pay
to the order of Reynolds & Co.
Forty-two hundred and 00/100 Dollars
at Wall St. Trust Co.
Value received
No. 1
Due April 2, 19-
W. Hall

Form No. 11.—Promissory Note.

Written Orders to Pay Money on Demand—Checks

Classes of orders to pay money.—Written orders to pay money may be divided into two classes: orders to pay money on demand and orders to pay money at some future time. Examples of written orders to pay money on demand are:

checks, postal money orders, express money orders, travelers' checks, bank drafts, and cashiers' checks.

Cash defined.—Since these orders are payable on demand, that is, immediately upon presentation at the bank or to the party who is authorized to make payment, they are treated by the bookkeeper as cash, that is, as equivalent to money. Cash is money or its equivalent (such as checks or money orders), generally accepted in payment of debts.

The check.—In most instances the settlement of accounts is made by check. A check is an order by a depositor on his bank to pay money on demand to a third person or someone named by him, or to bearer.

In the illustration of the check which follows, the American Steel Pipe, Inc., is the drawer; the Fidelity Union Trust Company of Newark is the drawee, and the American Metal Moulding Co. is the payee:


THIS CHECK IS IN SETTLEMENT OF THE FOLLOWING INVOICES

DATE	AMOUNT
Jan. 5	300 —
Less 5%	15 —
	285 —

IF INCORRECT PLEASE RETURN NO RECEIPT NECESSARY

AMERICAN STEEL PIPE, INC.
146 COIT STREET IRVINGTON, N. J.

No. 513 (1)

NEWARK, N.J. Jan. 15, 19

PAY TO THE ORDER OF American Metal Moulding Co. $ 285 00/100

Two hundred eighty-five and 00/100 DOLLARS

TO THE FIDELITY UNION TRUST COMPANY
IRONBOUND TRUST BRANCH
55-9 NEWARK, N.J.

AMERICAN STEEL PIPE, INC.
John Smith PRESIDENT
TREASURER

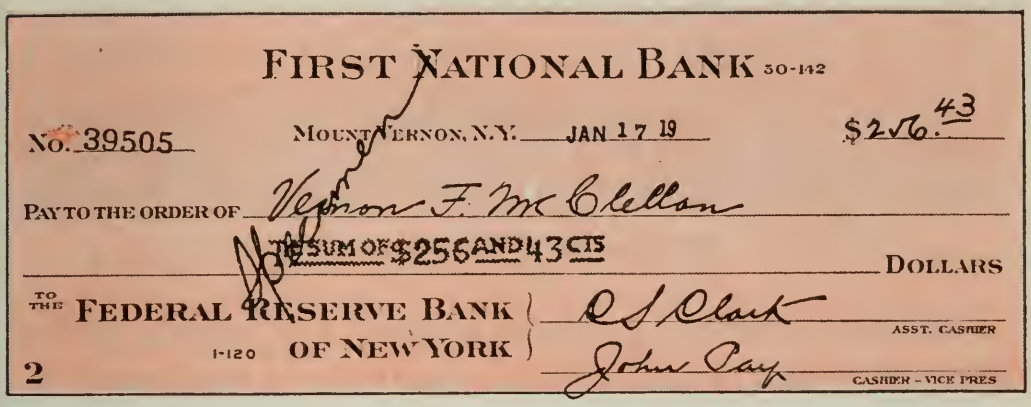
Form No. 12.—Check.

Other methods of making settlement of accounts.—But not all customers have check accounts. Consequently in some businesses, such as the mail order business, remittances are frequently received from customers in the form of bank drafts, postal money orders, and express money orders. Some customers may even remit currency although this is unwise.

The bank draft.—Rather than forward currency through the mails, the customer may purchase at a commercial bank what is known as a bank draft.

A bank draft is a check drawn by one bank on another

bank and made payable to a third party. An illustration of a bank draft is as follows:


FIRST NATIONAL BANK 30-142

No. 39505 MOUNT VERNON, N.Y. JAN 17 19 $256.43

PAY TO THE ORDER OF Vernon F. McClellon

THE SUM OF $256 AND 43 CTS DOLLARS

TO THE FEDERAL RESERVE BANK OF NEW YORK 1-120

R S Clark ASST. CASHIER

John Kay CASHIER - VICE PRES

2

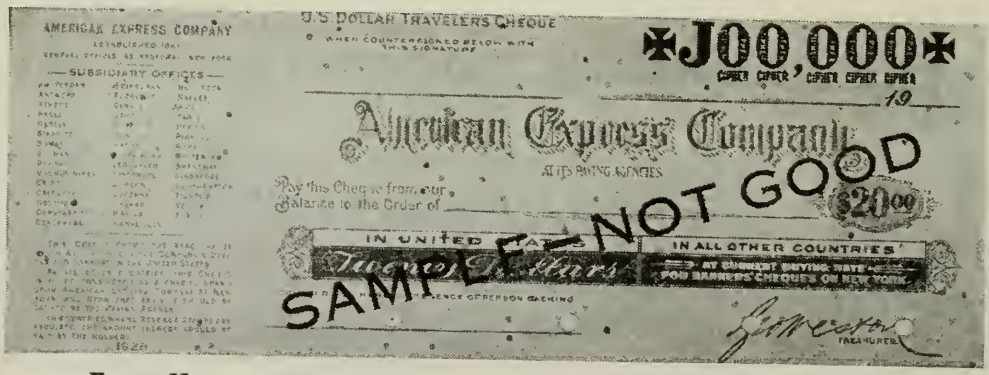
Form No. 13.—Bank Draft.

Postal money order.—If the amount involved is small, the customer may purchase at a United States Post Office a postal money order which he remits in payment of his account. A postal money order is an order issued by a United States Post Office to pay money on demand to the party who is named in the order. The order is payable at any United States Post Office upon identification of the payee.

Express money order.—The customer may find it more convenient to purchase an express money order. An express money order is similar to the postal money order. It is, however, issued by an express company and is payable at any office of the express company issuing the order.

Travelers' check.—In some businesses, such as the hotel business, travelers' checks are frequently received from guests in settlement of their accounts. Travelers' checks are usually issued by express companies or banks and are orders to pay money on demand to the extent of the amount of the check. The check is payable in whole or in part at any office of the issuing company.

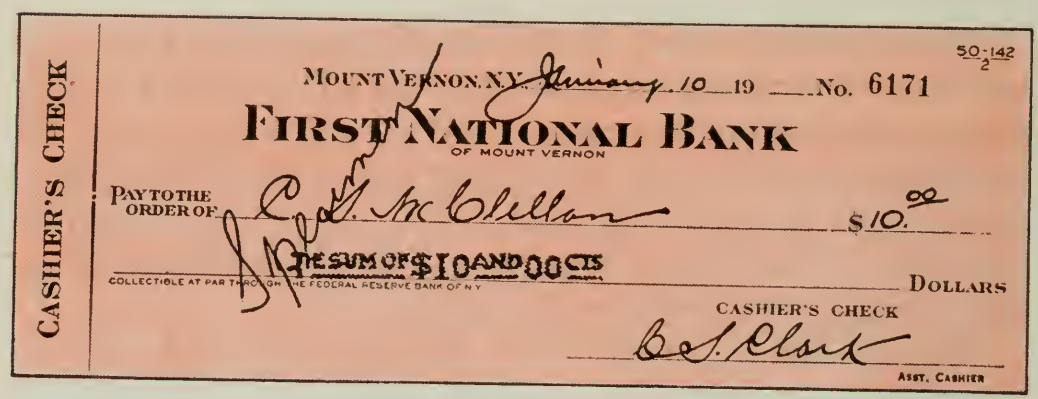
At the top of the following page is an illustration of a travelers' check:



Form No. 14.—American Express Company Travelers' Check.

Cashier's check.—A cashier's check is a bank's written order on itself to pay money on demand to a third party.

An illustration of a cashier's check is as follows:



Form No. 15.—Cashier's Check.

Summary.—It will be seen from the foregoing that orders to pay money are used to effect the settlement of accounts without the actual transfer of money. As previously explained, not all orders to pay money are treated by the bookkeeper as cash. Only those orders which are payable on demand, that is, which may be converted into money immediately, are treated as cash and are recorded by the bookkeeper when received on the receipt side of the cash journal.

Written Orders to Pay Money in the Future—Drafts

Commercial drafts.—There are certain negotiable orders to pay money which are not treated by the bookkeeper as

cash. These orders to pay money are known as commercial drafts. Commercial drafts include negotiable instruments known as drafts, bills of exchange, and trade acceptances.

Classification of drafts.—Drafts may be divided, according to the time of payment, into two classes:

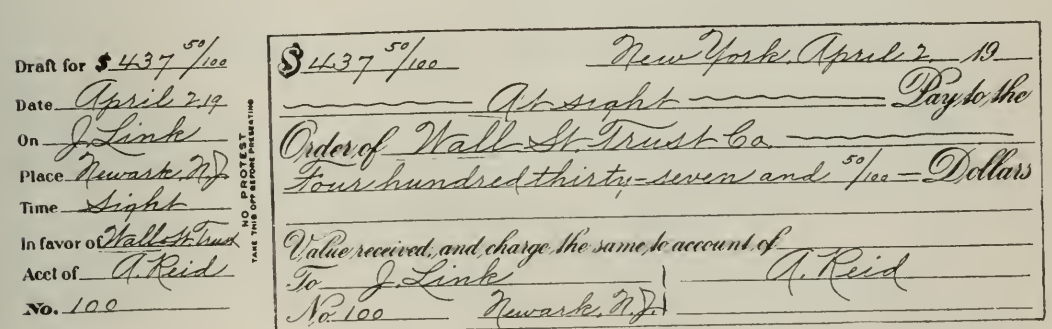
1. Sight drafts.
2. Time drafts.

A sight draft is payable when presented to the one on whom the order is drawn.

Time drafts are of two kinds, namely:

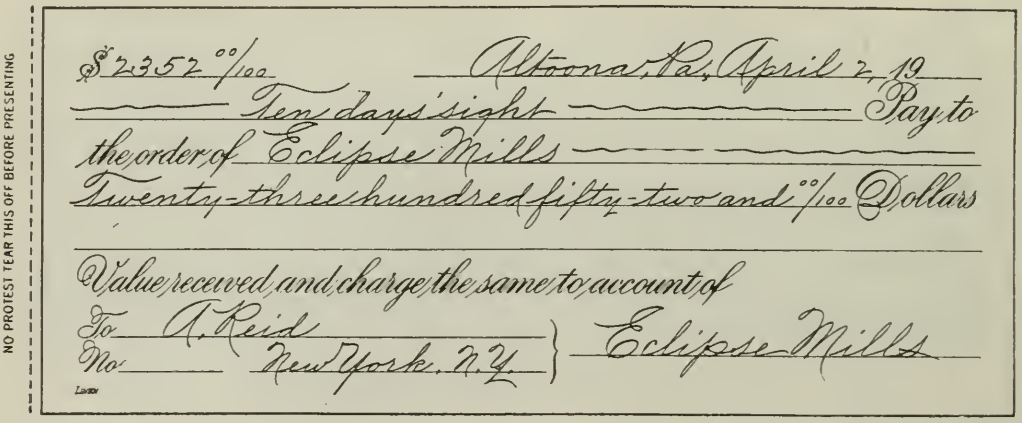
1. Those payable at a certain time after the date of the draft.
2. Those payable at a certain time after sight, that is, a certain time after it has been presented for acceptance to the one on whom it is drawn.

In the following illustration of a sight draft the meaning of the phrase "at sight" will be understood more readily by substituting the clause "when you see this draft." In the form illustrated, A. Reid is the drawer, J. Link is the drawee, and the Wall St. Trust Co. is the payee. J. Link is asked to pay at once.


Draft for $437 50/100
Date April 2 19
On J. Link
Place Newark, N.J.
Time Sight
In favor of Wall St. Trust
Acct of A. Reid
No. 100
NO PROTEST TAKE THIS OR ANOTHER MEETING
$437 50/100 New York, April 2 19
At sight Pay to the
Order of Wall St. Trust Co.
Four hundred thirty-seven and 50/100 Dollars
Value received, and charge the same to account of
To J. Link A. Reid
No. 100 Newark, N.J.

Form No. 16.—Sight Draft.

An illustration of a time draft payable a certain number of days after sight is shown on the following page:


NO PROTEST TEAR THIS OFF BEFORE PRESENTING

$2352 00/100 Altoona, Pa, April 2, 19

Ten days' sight Pay to

the order of Eclipse Mills

Twenty-three hundred fifty-two and 00/100 Dollars

Value received, and charge the same to account of

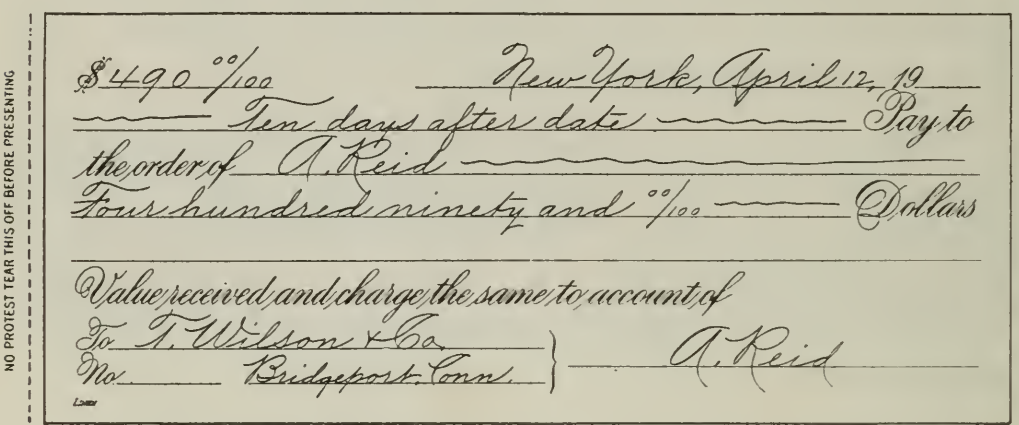
To A. Reid

No New York, N.Y.

Eclipse Mills

Form No. 17.—Time Draft Payable "After Sight."

Drafts may also be made payable a certain number of days after date. The following is an illustration of a draft payable a certain number of days after date:


NO PROTEST TEAR THIS OFF BEFORE PRESENTING

$490 00/100 New York, April 12, 19

Ten days after date Pay to

the order of A. Reid

Four hundred ninety and 00/100 Dollars

Value received, and charge the same to account of

To T. Wilson & Co.

No Bridgeport, Conn.

A. Reid

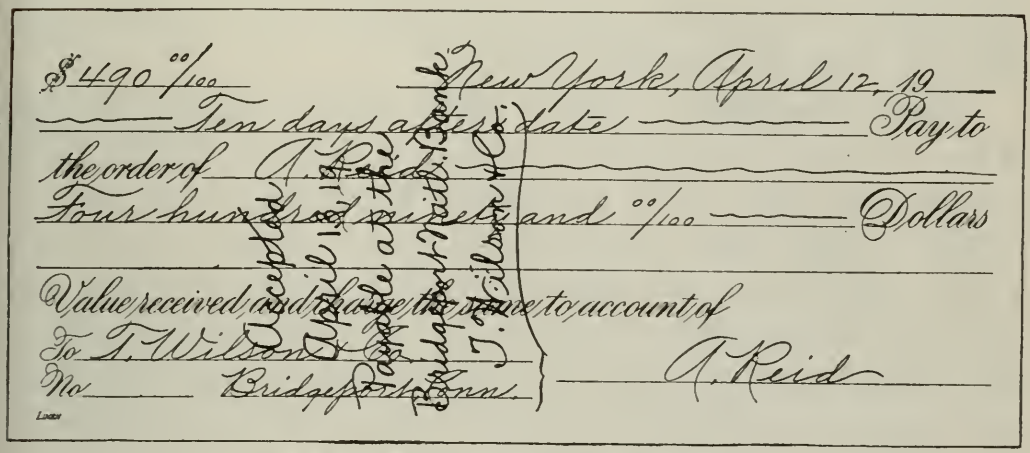
Form No. 18.—Time Draft Payable "After Date."

Drafts and other negotiable orders to pay money at sight or in the future have no value unless the signature of the party on whom the draft is drawn appears on the draft.

The customary method of signifying intention to make payment is to write across the face of the draft, as in the illustrations on page 273, the following:

1. The word "Accepted."
2. The date of acceptance.
3. The place where the draft is to be paid.
4. The signature of the one on whom the draft is drawn.

The following is an illustration of an accepted draft:

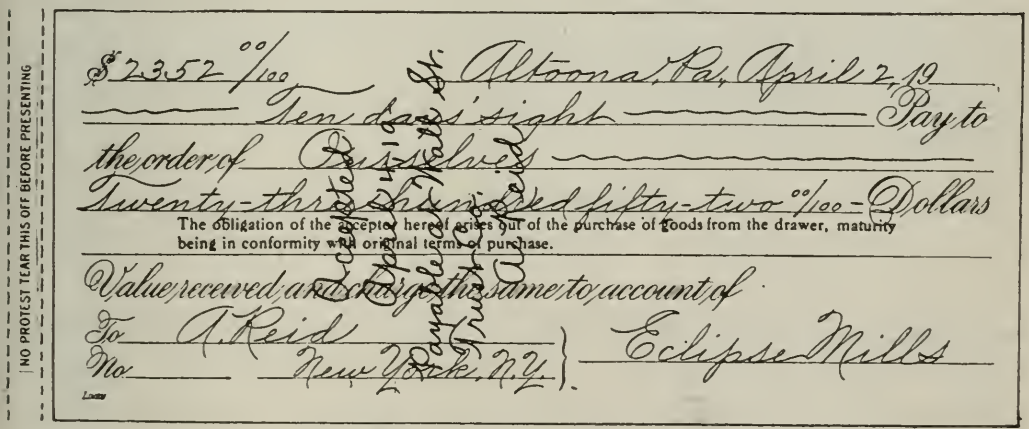


Form No. 19.—Accepted Draft.

Trade acceptance.—A trade acceptance is a draft drawn by the seller on the purchaser of goods sold and accepted by such purchaser. A trade acceptance differs from what is known as a draft in that the following statement appears on its face:

"The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase."

An illustration of a trade acceptance is as follows:



Form No. 20.—Trade Acceptance.

Recording drafts.—The bookkeeper makes entries only of accepted drafts. An accepted draft is one which contains the signature of the party on whom the draft is drawn.

Thus, when the bookkeeper sends a draft to a customer, no entry is made by him, as the draft has no value until it is accepted by the drawee, that is, until the one on whom the order is made has agreed to pay it.

Drafts receivable.—Since a sight draft is payable by the drawee, when it is presented to him, it follows that the only way a sight draft can be accepted is by paying it. If, for example, a sight draft made on a customer is paid, the bookkeeper will receive the cash or he will receive notice from the bank that the proprietor's account has been credited. In either case the bookkeeper makes an entry on the receipt side of the cash journal debiting Cash account and crediting the customer's account. Expressed in journal form, the entry is as follows:

Cash
    to Customer

No entry is made by the bookkeeper if the draft is dishonored. A sight draft is dishonored when the drawee refuses to pay it.

If, for example, a time draft is sent to a customer, the customer may dishonor the draft by refusing to accept it. No entry is made by the bookkeeper in such cases. If the customer accepts the draft, he will write across the face the word —" accepted " and will add his signature. The accepted draft, when received by the bookkeeper, is treated by him as a note receivable. Accordingly he makes an entry in the journal as follows:

Notes Receivable
    to Customer

Subsequently, when the draft is paid at maturity, the bookkeeper makes an entry on the receipt side of the cash journal debiting Cash and crediting Notes Receivable. In the illustration which follows, the transaction is expressed in journal form:

Cash
    to Notes Receivable

Drafts payable.—When a sight draft is paid by the owner of a business, the bookkeeper draws a check and makes an entry in the cash journal debiting the creditor's account and crediting Cash account. Expressed in journal form, the entry is as follows:

Creditor
    to Cash

If a time draft is accepted by the owner, the bookkeeper will treat it as a note given to the creditor and accordingly will make the following entry in the journal:

Creditor
    to Notes Payable

When the draft is finally paid, the bookkeeper will make an entry in the cash journal debiting Notes Payable account and crediting Cash account. Expressed in journal form, the entry is as follows:

Notes Payable
    to Cash

Dishonored checks and notes.—It is a rule of law that proper presentation for payment must be made of all checks, notes, and drafts before they may be considered as dishonored. A check or note is dishonored when proper presentation for payment has been made and payment could not be obtained. A draft is dishonored when acceptance or payment is refused.

It is the practice of banks to issue a formal statement known as a " certificate of protest " whenever a check, note, or draft is dishonored. (See form No. 21, page 276.)

A certificate of protest is an affidavit to the effect that proper presentation of a negotiable instrument has been made and that payment could not be obtained. It is usually issued by a notary public employed by the bank that holds the paper.

PROTEST

United States of America
State of New York } ss.
County of Westchester

On the 16th day of January 19--

at the request of **THE FIRST NATIONAL BANK OF MOUNT VERNON, N. Y.**, I, Gardner G. Winship, a Notary Public of the State of New York, duly commissioned and sworn dwelling in Westchester County, did present the original check hereunto annexed to The First National Bank, at Mount Vernon, N. Y. and demanded payment, thereof, which was refused Insuf. funds.

Whereupon, I, the said Notary, at the request aforesaid, did **Protest** and by these presents do publicly and solemnly **Protest** as well against the Drawer and Endorser of the said check as against all others whom it doth or may concern, for exchange, re-exchange and all costs, damages and interest already incurred, and to be hereafter incurred for want of payment of the same.

Thus done and Protested, at Mount Vernon in the county aforesaid, in the presence of John Doe and Richard Roe witnesses

IN TESTIMONIUM VERITATIS.

Gardner G. Winship
Notary Public.

United States of America,
State of New York,
County of Westchester. } ss.

I, Gardner G. Winship, a Notary Public of the State of New York, duly commissioned and sworn, do hereby certify that on the 16th *day of* January *one thousand nine hundred and* ---- *due notice of the presentment and protest of the said* check *after demanded and refusal of payment thereof by notice, partly written and partly printed, signed by me, was given by me to the* maker & *respective endorsers of the said instrument, by depositing the same in the Post Office of Mount Vernon, N. Y (prepaying the postage thereon), duly directed and subscribed to said* maker & *endorsers, as follows, to wit:*

To John Doe, Mount Vernon, N. Y.

Richard Roe - - - - - - - - - - } First National Bank,
First National Bank - - - - - } Yonkers, N. Y.

the above named places being the reputed places of residence of the persons to whom such notice was so addressed, and the Post Offices nearest thereto.

In Testimony Whereof, *I have hereunto set my hand and affixed my official seal at Mount Vernon, N. Y*

Gardner G. Winship
Notary Public.

GARDNER G. WINSHIP NOTARY PUBLIC WESTCHESTER COUNTY, N.Y.

Form No. 21.—Certificate of Protest.

When notice is received from the bank that a check deposited has been dishonored or protested, the entry to be made, expressed in journal form, is as follows:

Customer
to Cash

If the check has been protested by the bank, the protest fees should be included in the charge against the customer's account, together with the amount of the check.

When a note or a time draft previously accepted is dishonored or protested when presented for payment, the following entry should be made in the journal:

Customer
to Notes Receivable

As in the case of a protested check, the fees charged by the bank for protesting a note or draft should be charged against the customer's account, together with the amount of the note or draft.

If the note or draft protested bears interest, the amount of the interest likewise should be charged against the customer's account and credited to the Interest Earned account.

The law governing negotiable instruments also requires that proper notice be given to all persons concerned in the case of dishonored checks, notes, and drafts. Each indorser of a negotiable instrument has contracted to pay the paper in case of dishonor, unless he indorsed " without recourse," as explained on page 266.

The indorsers are entitled to prompt notice of dishonor of the paper. If the parties reside in the same place, this notice must be given by the end of the next business day; if in different places, notice must be mailed so as to go out on the next business day after dishonor. It is customary to send such notice to the maker or drawer of dishonored paper, as well as to the indorsers.

On the following page is an illustration of the form used:

FIRST NATIONAL BANK

Mt. Vernon, N Y. January 16, 19

Mr. John Doe,
Mount Vernon,
New York.

PLEASE TO TAKE NOTICE *that a* CHECK DRAWN
by John Doe
on First National Bank, Mount Vernon, N. Y.
for $ 25.00
Dated January 11th, 1929
Payable
to Richard Roe

endorsed by you has been dishonored, payment having been duly demanded at its maturity, and refused and that said CHECK *has therefore been* PROTESTED *for non-payment and that the holders look to you for the payment thereof, and all damages, costs and charges thereon.*

Yours &c.

J.W.Brown
Notary Public.
in and for Westchester Co., N. Y

B18664-10M-11-28

Form No. 22.—Notice of Dishonor.

Miscellaneous Business Papers and Forms

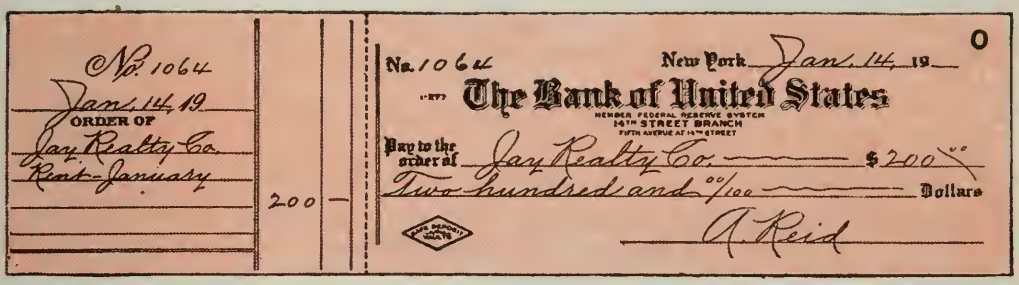
Payments of accounts by check.—Occasionally a note may be given or a draft may be accepted in settlement of an account. But, in most businesses, payments of accounts are made by checks.

In drawing a check it is considered good business practice to fill out the stub first and then write the check.

It is from the check stub that the bookkeeper makes entries on the payment side of the cash journal, recording payments made by check. Then, too, the check stub serves as a

means of checking over the canceled checks received from the bank at the end of each month.

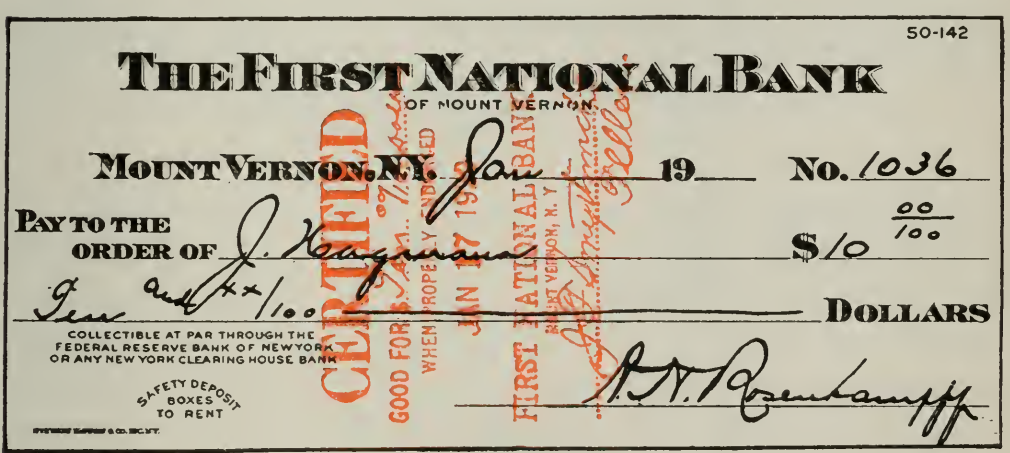
The following is an illustration of a check stub and check:



Form No. 23.—Check Stub and Check.

Certified check.—Taxes are usually payable by certified check. A certified check carries with it the assurance of the bank that the check will be paid when presented. A check is certified when on its face it bears the certification stamp and the signature of an official of the bank on which it is drawn.

The following is an illustration of a certified check:



Form No. 24.—Certified Check.

Receipt form.—It is common practice in business to take a receipt for all payments made in currency and likewise to give a receipt for all payments received in currency. On page 280 is an illustration of a receipt form:

August 1, 19

Received from R. Martin

Two hundred and 00/100 Dollars

For services rendered during month of July, 19-

$200 00/100

T. Lang

Form No. 25.—Cash Receipt.

Deposit slip.—Banks furnish their depositors with forms known as deposit slips, on which the amount of each check and other demand orders are listed when a deposit is made. It is a business custom to deposit all cash received daily.

The following is an illustration of a deposit slip:

No.

DEPOSITED WITH

FIRST NATIONAL BANK

OF MOUNT VERNON, N. Y.

FOR ACCOUNT OF

Madden Mfg. Co.

June 4 19

SEE THAT ALL CHECKS AND DRAFTS ARE ENDORSED

	DOLLARS	CENTS
COIN		10
BILLS	9	
CHECKS	280	
PLEASE LIST EACH CHECK SEPARATELY	300	
	200	
	789	10
Balance		
Statement		
New Account		

CHECKS CREDITED SUBJECT TO PAYMENT

Form No. 26.—Deposit Slip.

Bank statement.—Banks also issue a monthly statement of account to each depositor. The following is an illustration of a statement of account form used by banks:

THE FIRST NATIONAL BANK

MOUNT VERNON, N.Y.

IN ACCOUNT WITH

Madden Manufacturing Company

DATE 1929	CHECKS IN DETAIL	DATE	DEPOSITS
	BALANCE BROUGHT FORWARD	JAN 5 '29	958.63
JAN 5 '29	350.00 —		
JAN 7 '29	53.00 —	JAN 7 '29	500.00
JAN 8 '29	265.02 —		
JAN 9 '29	125.00 —		
JAN 10 '29	40.08 —		
JAN 11 '29	1.59 —	JAN 11 '29	104.00
JAN 12 '29	15.00 —		
	BALANCE	JAN 12 '29	712.94

IN RECEIVING ITEMS FOR DEPOSIT OR COLLECTION, THIS BANK ACTS ONLY AS DEPOSITOR'S COLLECTING AGENT AND ASSUMES NO RESPONSIBILITY BEYOND THE EXERCISE OF DUE CARE. ALL ITEMS ARE CREDITED SUBJECT TO FINAL PAYMENT IN CASH OR SOLVENT CREDITS. THIS BANK WILL NOT BE LIABLE FOR DEFAULT OR NEGLIGENCE OF ITS DULY SELECTED CORRESPONDENTS NOR FOR LOSSES IN TRANSIT, AND EACH CORRESPONDENT SO SELECTED SHALL NOT BE LIABLE EXCEPT FOR ITS OWN NEGLIGENCE. THIS BANK OR ITS CORRESPONDENTS MAY SEND ITEMS, DIRECTLY OR INDIRECTLY, TO ANY BANK INCLUDING THE PAYOR, AND ACCEPT ITS DRAFT OR CREDIT AS CONDITIONAL PAYMENT IN LIEU OF CASH; IT MAY CHARGE BACK ANY ITEM AT ANY TIME BEFORE FINAL PAYMENT, WHETHER RETURNED OR NOT. ALSO ANY ITEM DRAWN ON THIS BANK NOT GOOD AT CLOSE OF BUSINESS ON DAY DEPOSITED.

Form No. 27.—Bank Statement.

This statement shows the balance at the beginning of the month and all credits made to the depositor's account covering deposits, collection of items such as notes and drafts, and interest on the balance of the account. It also shows the individual charges made against the depositor's account for checks paid, exchange and collection, and protested checks.

Reconciliation of bank balances.—It is the custom in business, upon receipt of the statement from the bank or upon having the pass book balanced, to compare the balance as shown by the bank's statement or pass book with that of the check book.

In either case, the bank shows the individual amounts as well as the total amounts credited or charged to the depositor's

account, and the amount of the balance. It returns to the depositor checks drawn by him which have been paid and canceled; and usually supports with vouchers all other charges made by it to the depositor's account.

The balance of cash on deposit at the bank, as shown on the monthly statement or pass book, is usually, but not always, greater than the balance as shown by the check book. This condition is caused by the fact that checks are seldom paid on the same day on which they are drawn. This is especially true of checks payable to creditors. Such checks as a rule pass through the hands of two or more persons, thus causing a lapse of several days before they are finally paid by the bank.

The difference caused by the checks outstanding is accounted for by preparing on the check book or elsewhere a reconciliation statement in which the total amount of checks outstanding is subtracted from the amount of the balance as shown on the bank's statement.

An illustration follows:

RECONCILIATION STATEMENT

Our balance			$2,000.00
Add—Interest on bank balance			12.00
			$2,012.00
Less—Collection and exchange charges			2.00
Adjusted balance			$2,010.00
Balance per bank statement		$3,410.00	
Less—Checks Outstanding:			
#134	$300.00		
135	500.00		
136	200.00		
137	400.00	1,400.00	
True bank balance			$2,010.00

Statement of account.—Periodically, but usually at the end of each month, it is the practice in business to send to each customer a statement of account showing the balance due.

The statement may show only the unpaid invoices, as follows:

TERRACE 1132-1133 STATEMENT FORM NO. 5

AMERICAN METAL MOULDING COMPANY

146 COIT STREET

IRVINGTON, N. J.

March 31, 19-

Standard Electric Co.,

Boston, Mass.

FOLIO

		TO MDSE.				
Mar.	5		$600	--		
"	18		1050	--		
					$1650	

Form No. 28.—Statement of Account Showing Open Items.

Or it may begin with the balance on the preceding statement and show all the debits and credits made in the account during the period.

Where mechanical devices are used, such as the bookkeeping machine, entries are made in the accounts and on the statements in one writing. Hence the statement of account shows the balance at the beginning of the month and the individual items debited and credited to the account during the month. An illustration of a statement of account showing the individual items debited and credited in the account during the period is as follows:

TERRACE 1132-1133 STATEMENT FORM NO. 5

AMERICAN METAL MOULDING COMPANY

146 COIT STREET

IRVINGTON, N. J.

March 31, 19-

Standard Electric Co.,

Boston, Mass.

FOLIO

		TO MDSE.				
		Feb. Balance			$900	
Mar.	5	To Mdse.	$600	--		
	18		1050	--		
			1650	--		
		Credits				
Mar.	9	By Cash	900	--	750	
					1650	

Form No. 29.—Statement of Account Showing Current Month's Transactions.

Business Practice Set No. 2

Business Practice Set No. 2 should be worked at this point. This set is designed to review the principles of bookkeeping already developed and to afford a means of studying the routine of a business office. Business papers and forms which accompany the set, as well as the blanks needed for the records, may be obtained from the publishers. The narrative of transactions is included in the outfit.

The set is so designed that it may be worked without the use of the papers, if desired. The narrative of transactions alone may be obtained without cost.

Chapter XIX

SUPPLEMENTARY EXERCISES FOR DRILL AND REVIEW

The exercises in this chapter have been selected or adapted from examinations in advanced bookkeeping given by the University of the State of New York:

1. For question 1, use journal, cashbook, sales journal and purchase journal. The special columns required in the journal are Accounts Payable Dr., Notes Receivable Dr., Accounts Receivable Cr., and Notes Payable Cr. The special columns required in the cashbook are as follows: *receipts side,* Discount on Sales, Accounts Receivable and Sales; *payments side,* Discount on Purchases, Accounts Payable, and Expense. All original entries must contain sufficient explanation to make transactions clear.

A. B. Carter and E. F. Gordon have been engaged in business, Carter in the carpet and rug business, Gordon in the furniture business. On November 1, 19—, they form a partnership, under the firm name of Carter & Gordon, for the purpose of conducting a wholesale and retail carpet and furniture business. The new firm is to take over all the assets of the partners and to assume all the existing liabilities. The partner whose statement of assets and liabilities shows the smaller net worth is to make an additional cash contribution to equalize the investments.

The following statements of assets and liabilities prepared by the partners form the basis of their respective investments:

A. B. Carter

Cash, $5,000; merchandise inventory, $12,200; office and store fixtures, $2,500; horses, wagons, and harnesses, $900; notes receivable (schedule A), $1,560; accounts receivable (schedule B), $8,800.10; insurance prepaid, $240; notes pay-

able (schedule C), $1,500; accounts payable (schedule D), $5,410.30.

Schedule A—Notes Receivable

3-months' note dated Oct. 9, 19—, Henry Mason, maker	$ 300
4-months' note dated Aug. 23, 19—, John White, maker	$1,260

Schedule B—Accounts Receivable

John White	$3,250.97	Henry Mason	$2,980.63
William Dengate	$1,655.40	D. E. Sayles	$ 913.10

Schedule C—Notes Payable

2-months' interest-bearing note dated Sept. 16, 19—, in favor of Taylor & Co	$ 1000
3-months' note dated Oct. 19, 19—, in favor of Detroit Chair Co	$ 500

Schedule D—Accounts Payable

Taylor & Co	$2,760.00	Michigan Furniture Co	$1,240.70
Detroit Chair Co	$1,409.60		

E. F. Gordon

Cash, $6,000; mdse. inventory, $17,520; office and store fixtures, $1,675; auto delivery truck, $960; notes receivable (schedule A), $1,250; accounts receivable (schedule B), $9,723.50; accounts payable (schedule C), $3,231.25.

Schedule A—Notes Receivable

3-months' note dated Aug. 31, 19—, Donald Morgan, maker	$1,250

Schedule B—Accounts Receivable

Donald Morgan	$1,975.30	Howard Gibson	$3,522.60
James Blake	2,363.90	Harvey Bullis	1,861.70

Schedule C—Accounts Payable

Smith Bros	$1,495.75	Sanford & Co	$1,735.50

(a) Under date of November 1, 19—, make the opening entries for the investments of the two partners. [Carter contributed his check for his additional investment.]

(b) Record, with sufficient explanations, the following selected transactions:

Nov. 3, 19—. Bought of Smith Bros., Amsterdam, N. Y., a lot of carpets amounting to $1,540; terms 5/10, 2/30, n/90.

4. Sold John White, City, furniture amounting to $680 and received his check for $300, balance on account. Paid rent for month in advance, $150.

Paid freight on invoice from Smith Bros., $23.45. Received New York draft from Donald Morgan to apply on his account, $875.20.

Nov. 6. Cash sales for day, $367.35. Paid for cleaning windows, $2. Discounted at First National Bank John White's note, dated Aug. 23, and received credit for the proceeds.

9. Bought of Sanford & Co., Philadelphia, Pa., carpets and rugs amounting to $1290; terms 5/10, 2/30, n/90.

12. Bought of Michigan Furniture Co., Grand Rapids, Mich., furniture amounting to $953; terms 4-months' note.

15. D. E. Sayles, having failed in business, settles with his creditors for 50 cents on the dollar. His check for $456.55 has been received and accepted in full settlement of his account. Sent our check to Smith Bros. in payment of invoice of Oct. 12, 19—; amount $670.50, less 2%.

16. Received from Howard Gibson, to apply on his account, our interest-bearing note in favor of Taylor & Co., for $1000, due to-day.

19. Sold Donald Morgan furniture amounting to $760; terms 5/10, 2/30, n/90.

24. The First National Bank notified us that Charles Moore's note for $265, which was left for collection and which matured yesterday, was protested for nonpayment; the protest fees, $2.50, were charged to our account.

27. Received check from Donald Morgan in payment of bill of Nov. 19, less the discount.

29. Sold Henry Lamb carpets and rugs amounting to $975 and received his 60-day note in payment. We indorsed this note to Sanford & Co. and sent it to them to apply on our account. Returned to Sanford & Co. 2 rolls of carpet amounting to $143.35; this carpet was received with last invoice, but was not the pattern ordered.

29. A 30-day draft in our favor, drawn on Nov. 26 on James Blake, for $1200, has been accepted and returned.

Nov. 30. Received check from Donald Morgan in payment of note due to-day (See schedule A of Gordon's invested assets). Paid by check the following: salaries of bookkeeper and clerks for month, $250; invoice of stationery, $27; bill for gas and electric light for month, $22.75.

(c) Foot and rule the books of original entry and indicate how footings should be posted.

2. Use journal, cashbook, salesbook and purchase book.

Columns required in the four column journal are: Accounts Payable and General on the debit side; Accounts Receivable and General on the credit side.

Columns required in the cashbook are: Accounts Receivable, Discount on Sales, Net Cash and General on the *receipts side;* Accounts Payable, Discount on Purchases, Net Cash and General on the *payments side.*

Make, in the above books, the necessary entries for the following transactions:

June 1, 19— J. C. Street, who has been conducting a wholesale grocery business, has formed a partnership with A. F. Higgins, under the firm name of Street & Higgins. Investments of the partners are to be equal. The new firm is to assume all liabilities of J. C. Street. Profits and losses are to be shared equally.

J. C. Street turns over to the new business the following assets and liabilities:

Assets: cash, $5300; merchandise, $10,000; furniture and fixtures, $900; insurance prepaid, $180; accounts receivable, $3200 (White & Son, Rochester, N. Y., $600, Mason & Bros., Utica, N. Y., $2600); notes receivable (three months' interest-bearing note of G. Gordon for $1400, dated May 2; accrued interest, $7).

Liabilities: accounts payable, $2000 (A. Wise, Wilkes-Barre, Pa., $1200, B. Kelly, Binghamton, N. Y., $800).

A. F. Higgins invests J. Smith's note for $5000, dated May 17 for three months, with interest at 6% (accrued interest to be computed) and cash to equalize the partners' investments in the business.

June 1, 19—. Bought of Gregg Bros., Rochester, N. Y., invoice of merchandise dated June 1, terms, 2/10, n/60, $2806.25.

2. Paid June Magazine Co., for advertising, by check, $65. Paid Woodlawn Realty Co. rent for June by check, $200.

4. Sold R. Thomas, City, terms 2/10, n/30, goods valued at $366.

5. J. C. Street withdrew from the business cash for private use, $150. Discounted J. Smith's note invested by A. F. Higgins and received credit for the net proceeds at the City Bank.

6. Drew on Mason & Bros. a sight draft in our favor for $800 and placed it in the bank for collection.

7. Received from Butler & Co., Buffalo, N. Y., invoice of merchandise of this date, terms 2/10, n/30, $3000. Paid clerks' salaries for the week, $70.

8. Sold to K. Manner, Utica, N. Y., terms 2/10, n/30, a bill of merchandise amounting to $200. Paid John Brown, tax receiver, by certified check, $300. Sent Gregg Bros. a check for invoice of June 1, less 2% discount. The bank notifies us that the draft drawn on Mason & Bros. has been collected and credited to our account.

11. Bought of J. Jappe, Syracuse, N. Y., on our 60-day note, with interest, invoice of merchandise amounting to $144.

12. A. F. Higgins withdrew for private use cash, $100, and merchandise, $50.

13. Received from R. Thomas a New York draft on the First National Bank of New York City for invoice of June 4, less the discount. Paid freight bills on purchases to date by check, $26.75.

14. Paid by check salaries of clerks, $70.

15. Bought an auto truck, $1800; paid cash $800 and gave note for balance.

16. Paid sight draft drawn on us by Butler & Co. for invoice of June 7, less 2% discount.

18. Received a bank draft from K. Manner in payment of invoice of June 8, less the discount.

June 19. White & Son have failed in business and settle with their creditors at 50¢ on the dollar. Their check for $300 is received and accepted in full of their account.

21. Paid by check salaries, $70.

Foot and rule and balance the cashbook, bring down the balance and properly prepare the books for posting, but do not post.

3. Use a cashbook containing the following columns: *receipts side:* General Ledger, Accounts Receivable, Discount on Sales, Net; *payments side:* General Ledger, Accounts Payable, Discount on Purchases, Net. Use a general journal, a sales journal, and a purchase journal. Open the books and enter the following facts:

On December 1, 19—, L. C. Danford and B. C. Robson became partners to carry on a wholesale business under the firm name of Danford & Robson, taking over the following assets and liabilities: L. C. Danford invested cash, $1980; merchandise, $18,000; accounts receivable, $15,000 (H. Rose, $7500; B. Carroll, $4500; Harold Forwarding Co., $3000); J. Carter's 60-day interest-bearing note, $4000, dated Nov. 1, 19— (accepted at face value plus accrued interest); accounts payable, $7000 (J. R. Walker & Co. $4500, W. Miner, $2500). B. C. Robson invested cash, $3002; automobile trucks, $7000; furniture and fixtures, $2500; real estate, $10,000, on which there is a mortgage of $3500; a 30-day note in favor of C. Ransom for $3000, dated Nov. 27, 19—, with interest at 6% (the firm assumed payment of this note plus the accrued interest).

Dec. 3. Bought of J. R. Walker & Co., Reading, Pa., terms 2/10, n/30, invoice of merchandise dated Nov. 30, $2600.

4. Paid by check premium on insurance to cover stock of merchandise for one year, $157. H. Rose paid by check his account, $7500.

5. Sold to J. Connelly & Co., Elizabeth, N. J., terms 3/10, n/30, bill of merchandise, $1800.

7. Bought of the Johnson Importing Co., Yonkers, N. Y., terms 2/10, n/20, invoice of merchandise dated Dec. 5, $2350.

Dec. 8. Purchased a new automobile truck for $2800. In payment traded in an old truck valued at $400 and gave the firm's check for the balance.

10. Paid by check J. R. Walker & Co. for invoice received Dec. 3. Bought of W. Miner, Easton, Pa., terms 2/10, n/30, invoice of merchandise dated Dec. 7, $2200. Bought for cash of the Curtis Supply Co., City: 1 filing cabinet, $67.50; loose leaf ledgers with binders, $26.50; miscellaneous office supplies, $49.60.

11. Sold to the Harold Forwarding Co., Montclair, N. J., terms 3/10, n/30, bill of merchandise, $2700.

13. Discounted at 6% the firm's 60-day note for $8000, dated to-day, and received credit for the net proceeds at the First National Bank.

15. Paid by check W. Miner, $2500 on account. Received check from J. Connelly & Co. for the invoice of merchandise sold them on Dec. 5.

17. Paid by check W. Miner's invoice of Dec. 10.

21. Received from the Harold Forwarding Co. a New York draft in payment of invoice of Dec. 11.

27. Paid by check C. Ransom's note, with interest.

28. The First National Bank has notified the firm that the Johnson Importing Co. has drawn on it at sight for the purchase of Dec. 7. The bank is instructed in writing to pay the draft and charge it to the firm's account.

31. Paid by check the following bills: freight and cartage inward, $97.60; gas and light, $42.25; telephone bills, $12.30.

Prepare the cashbook, sales journal and purchase journal for posting, but do *not* post. Bring down the cash balance.

4. Use a journal containing the following columns: *debit side,* Notes Receivable, Accounts Payable, General; *credit side,* General, Accounts Receivable, Notes Payable.

On May 1, 19—, Judson Stone and Charles Milford, who have been equal partners in a wholesale grocery business, enter into a new partnership with Byron Steele, whereby Steele becomes an equal partner by investing real estate valued at $1500, his own two-months' interest-bearing note for

$1000, and sufficient cash to make his investment equal to one-half of the net capital of the old firm. (A new set of books is to be used.)

The following memorandum of assets and liabilities submitted by Stone & Milford is accepted as the basis of their respective investments:

Assets: cash, $3201.67; accounts receivable, $3050 (Jones & Co., $2000; Joseph Soule, $750, A. B. Dix, $300); merchandise, $5200; furniture and fixtures, $1800.

Liabilities: a 30-day note for $4000, dated April 23, 19—, with interest accrued to date, in favor of Scott Brown; accounts payable, $1900 (B. C. Alfred, $1100, A. Cole, $800).

Using the foregoing facts, journalize, with explanation, the opening entries in the journal of the new firm. Make, with sufficient explanations, journal entries for the following selected transactions:

May 2, 19—. Returned to B. C. Alfred, for credit, damaged goods amounting to $150.

3. Jones & Co., to whom we sent an invoice of goods on May 1, claim an overcharge of $100. A corrected bill was sent them.

11. Accepted B. C. Alfred's 30-day draft for $950 in full settlement of account.

18. A. B. Dix has gone into bankruptcy. The trustee in bankruptcy notified us that Dix had no assets with which to settle his liabilities.

20. Received from Jones & Co. a 60-day note to balance their account.

23. Renewed the firm's 30-day interest-bearing note of April 23 by giving a new 15-day interest-bearing note to cover the old note and interest to date.

31. Bought of the Excelsior Company, terms n/30, office stationery and supplies, $102.50.

Foot and rule the journal. Indicate clearly how the column totals are to be posted to the different ledger accounts, but do not post.

5. Prepare a cashbook containing the following columns: *receipts side,* Accounts Receivable, Discount on Sales, Merchandise Sales, General, Net Cash; *payments side,* Accounts

Payable, Discount on Purchases, Delivery Expense, General, Net Cash. (Net Cash may be placed first.)

Enter the following selected cash transactions for Charles S. Arthur, checking all items that should not be posted separately.

April 1, 19—. Balance of cash on hand, $1126.50.

2. Bought at a filling station gasoline and oil for delivery car, $3.80.

4. Paid A. B. Cole for invoice of March 26 amounting to $420; the terms of purchase were 2/10, n/30.

7. Paid our 30-day note of March 8 in favor of King & Co., $400, with interest at 6%.

9. The cash register showed merchandise sales amounting to $436.18.

11. Discounted A. C. Brown's 60-day non-interest-bearing note for $900, dated March 17, 19—.

12. Received check from M. Brooks for sale of April 2, amounting to $275.32; the terms of sale were 2/10, n/30.

15. Received from R. M. Jones for rent of storage space, $12.50.

18. Paid West Side Garage for repairs to motor truck, $34.40.

23. Paid to J. White, a salesman, for railroad fare, $41.60.
Paid for gasoline and oil for delivery car, $18.50.
Paid for office stationery, $6.50.

25. The Merchants Bank reported the collection of a sight draft for $260, drawn April 16 on W. C. Miller of Buffalo, N. Y.

27. Bought for cash from Brown Equipment Co. a new office desk and chair, $152.

30. Paid store clerks' salaries, $225.
Cash register showed merchandise sales amounting to $548.92.
Charles S. Arthur, the proprietor, withdrew for private use $200.
Refunded to R. M. King on a cash sale, $46.

Close the cashbook and bring down the balance. Indicate in some clear manner how the amounts shown in the footings

are to be debited and credited to the different ledger accounts, but do not post.

6. Use a cashbook containing the following columns: *receipts side,* Accounts Receivable, Discount on Sales, Net, General; *payments side,* Accounts Payable, Discount on Purchases, Net, General. Use a six-column journal with headings as follows: *debit side,* Accounts Payable, Notes Receivable, General; *credit side,* Accounts Receivable, Notes Payable, General. Both a sales journal and a purchase journal are to be used. Enter in the above books the following transactions:

On May 2, 19—, John Henry and Jacob Romary began a partnership with equal investments, the firm name to be known as the Henry and Romary Wholesale Company. Henry invested: cash, $2500; merchandise, $17,000; accounts receivable, $5000; office fixtures, $1400; an auto truck, $1000. The new firm assumes the accounts payable of Henry, which amount to $1900. Romary invested: land and building, $20,000; cash, $5000. Profits and losses are to be shared equally.

May 3. Bought supplies for office; gave check in payment, $50.

5. Bought of C. Danford & Co., terms 3/10, n/30, merchandise invoiced at $1750.

Purchased a new auto truck, $3000. In payment traded in the old truck, valued at $1000, and gave check for $2000.

6. Purchased stock of goods of Sam Cohan & Co. and gave check in payment, $3500. Paid office salaries by check, $75.

8. Sold French Brothers, terms 2/10, n/30, merchandise invoiced at $2000.

9. Bought of C. Danford & Co. merchandise invoiced at $1800. In payment gave check for $800 and a 10-day promissory note, with interest, for the balance.

10. Bought for cash stationery and stamps, $15. Paid by check to the Porter Fixture Co. for desk and filing cabinet, $225.

May 12. Sold Tilton & Son, terms 2/10, invoice of merchandise, $1500. Paid office salaries in cash, $75. Purchased coal for furnace and gave check, $132. Jacob Romary withdrew cash for private use, $150.

15. The company discounted its own 60-day note for $4000 at the First National Bank at 6% and received credit for the net proceeds. Paid C. Danford & Co. for invoice of May 5 due to-day, less the discount.

16. Sold R. Walter, terms 2/10, n/30, merchandise invoiced at $1200. Merchandise in the stock room has been damaged to the extent of $300; this is a total loss, as there is no insurance.

17. Tilton & Son returned part of the invoice sold them on May 12 and received credit, $300.

18. We returned to C. Danford & Co. goods bought from them on May 9 and received credit, $500. French Brothers paid their invoice due to-day according to terms.

19. Paid note in favor of C. Danford & Co., due to-day, with interest at 6%. An additional investment of $1000 in cash is made by each of the partners.

20. Paid office salaries in cash, $75. Bought of C. Danford & Co., terms 3/10, n/30, merchandise invoiced at $1650.

22. Sold R. Walter, terms 2/10, n/30, merchandise billed at $2500. Tilton & Son paid their invoice due to-day as per terms.

23. Bought of J. Johnson, terms n/30, goods invoiced at $2700.

26. R. Walter is unable to pay for the goods purchased on May 16. We agree to take his 30-day note, with interest at 5%, for face of bill, less discount, and give him credit. Discounted R. Walter's note at First National Bank at 6% and received cash for the proceeds.

26. Paid in cash office salaries, $75.

Foot and rule all books for posting. [Do not post.]

7. Use a cashbook containing the following columns: *receipts side:* General, Accounts Receivable, Notes Receivable,

Interest Cost, Net Cash; *payments side:* General, Accounts Payable, Discount on Purchases, Net Cash.

Make, with explanations, the necessary entries for the following cash transactions:

Dec. 1, 19—. Cash in bank, $5600.42; in cash drawer, $17.50.

3. Bought a typewriter for office use; gave check, $125.

4. A sight draft for $168 drawn on Ripton Case, which had been left at the bank for collection, has been credited to our account.

11. W. Gates, a commission agent, rendered an account sales with a check for $627.42, the proceeds of shipment No. 10.

Gave the Amsterdam Real Estate Company a check for $4000 for a deed of the property we now occupy.

12. James Wilson (proprietor) withdrew $150 for personal use.

14. Sent a check for $10 to Keck Brothers, a customer, for overpayment made by them on a bill of recent date.

18. Discounted at the bank M. Pearson's 30-day non-interest-bearing note of December 3 for $824.67, and received credit for the net proceeds.

21. Sent a check to A. Sweet for invoice of December 11, terms 1/10, n/30. Amount of check, $495.

Received from Thomas Wood a check for his 60-day interest-bearing note for $142.37, due to-day.

22. Received a Boston draft from J. Storm for bill of December 12, terms n/30. Amount of bill, $128.30.

Prepaid our 90-day interest-bearing note of October 29 for $810.

Balance the cashbook and prepare it for posting to the ledger, but do not post.

8. For this question use a cashbook with columns provided for as follows: *receipts side,* Net Cash, Accounts Receivable, Discount on Sales, General; *payments side,* Net Cash, Accounts Payable, Discount on Purchases, General. All original entries must contain sufficient explanation to make transactions clear.

On the morning of June 2, 19—, the cashbook of Henry Thomas & Co. shows a balance of $6928.30, of which $100 is in the petty cash fund, the remainder on deposit in the Hornell National Bank.

(a) Under date of June 2, enter the cash balance in the cashbook and make the entries for the selected cash transactions of the day as given below:

Received the following items in the morning mail:

Arthur Johnson's check for $625.65 in payment of bill of May 18, amounting to $638.42, less 2%.

J. R. Carlin's check for $700 to apply on account.

Henry Snyder's check for $600 in payment of 60-day note for $450, with interest, due to-day, the balance to apply on account.

The Corning Trading Company's check for $17.96, an overcharge on invoice of goods purchased from them and paid for on May 20.

John Naylor's check for $381.08 in payment of bill of May 25, amounting to $392.87, less 3%.

The following payments were made by check:

Hornell National Bank for our two-months' note for $3000 due to-day, with interest at 5%.

Scranton Hardware Company for invoice of May 3, amounting to $1983.75, less 1%.

The Taylor Corporation for invoice of May 19, amounting to $629.45, terms 1/15, n/60. (The account shows a debit of $16.82, entered May 26, for goods returned.)

The Eastern Railway Company for freight bill rendered to-day $89.67. Of this amount, $13.42 was for freight on goods shipped.

Other transactions for the day were as follows:

Discounted at the bank Gordon & Wilson's 90-day note for $1300, dated April 19, and received credit for the proceeds.

Received notice from our bank that James Alling's 30-day acceptance for $500 has been collected and credited to our account; collection charge, 50¢.

Petty cashier submitted vouchers for the following payments: office supplies, $15.36; office expense, $22.38; office salaries, $25 (advanced to bookkeeper on June salary); miscellaneous expense, $16.48. A check was issued for the total amount.

Cash sales for the day, $246.73.

(b) Close and summarize the cashbook.

9. Use general journal, cash journal, sales journal and purchase journal. Columns required in the general journal are: *debit side,* General, Accounts Payable, Notes Receivable; *credit side,* General, Accounts Receivable, Notes Payable. Columns required in the cash journal are as follows: *receipts side,* General, Accounts Receivable, Discount on Sales, Net Cash; *payments side,* General, Accounts Payable, Discount on Purchases, Net Cash.

Frank Hawkins and William Baker were engaged in the hardware business, Hawkins as a retail dealer and Baker as a wholesale dealer. On December 1, 19—, they formed a partnership under the firm name of Hawkins & Baker for the purpose of combining the two businesses. The new firm took over the assets of Frank Hawkins and of William Baker and assumed the liabilities of each. The assets and liabilities of Frank Hawkins were as follows: cash, $3491.88; J. Walker's three-months' note for $860, dated September 27, 19—, with interest at 6%; accrued interest receivable, $8.12; accounts receivable, $3690 (Wilson & Co., $1450; Barnes & Co., $2240); stock of hardware, $4200; furniture and fixtures, $1920; accounts payable, $2375 (W. F. Nye, $855; A. L. Burt, $1520). William Baker's assets and liabilities were as follows: cash, $5717.65; stock of hardware, $7900; a 60-day note for $400, dated October 22, 19—, with interest at 6%, in favor of Nelson & Co.; accrued interest payable, $2.65; accounts payable, $1420 (S. S. Morse, $850; R. Thomas, $570).

Using the foregoing facts, journalize, with explanations, the opening entry on the books of Hawkins & Baker. Make, with sufficient explanations, entries for the following selected transactions:

Dec. 2, 19—. Bought from Smith & Co., Philadelphia, Pa., merchandise costing $975; terms, cash $300, and a 15-day note for the balance.

3. Sent Smith & Co. our check for $300 and our 15-day note in full payment of their invoice of Dec. 2.

5. Sold R. Lawson, Albany, N. Y., merchandise, $628, terms 2/10, n/30. Paid freight on this shipment of merchandise $25.30, and charged the amount to Lawson's account.

Received Wilson & Co.'s check for $1450, balance of their account on Dec. 1.

6. Sold S. Arnold, Albany, N. Y., merchandise, $800, terms 2/10, n/30.

Bought from Smith & Co., Philadelphia, Pa., merchandise, $900, terms 2/10, n/30.

7. Sold merchandise to Brown & Son, Syracuse, N. Y., $800, terms cash, less 5%. Received their check for the net amount.

9. S. Arnold returned merchandise for credit, $38.

12. Drew a sight draft on Barnes & Co. for the balance of their account, $2240. Gave the draft to the Salt City Bank for collection.

14. The Salt City Bank notified us that our draft of Dec. 12 on Barnes & Co. has been collected and credited to our account.

15. Received a check from R. Lawson in payment of our invoice of Dec. 5, less 2%, plus the freight charges on that shipment.

16. Gave Smith & Co. a check in payment of the note that we mailed them on Dec. 3 and also in payment of their invoice of Dec. 6, less 2%.

19. Discounted J. Walker's note of Sept. 27 at the Salt City Bank and received credit for the proceeds, $870.74.

30. Issued checks for the following: E. Ernst, January rent, $200; I. S. Robb, insurance, $53.60; salaries, $250; lighting bill, $18.75; telephone service, $9.75.

Foot and rule the journal, sales journal, and purchase journal. Close the cash journal and bring down the balance. Indicate in some clear manner how the amounts shown in the

footings are to be debited and credited to the different ledger accounts, but do not post.

10. Prepare a cashbook containing the following columns: *receipts side,* General, Accounts Receivable, Discount on Sales, Net Cash; *payments side,* General, Accounts Payable, Discount on Purchases, Net Cash.

Prepare a petty cashbook containing the following columns: Date, Explanation, Debit, Credit, General Expense, Postage, Freight Inward, and under Sundry Accounts, columns for Amount and Accounts Debited, as a petty cash fund is to be established from which all currency payments are to be made. At the end of the month, the petty cashbook is to be footed and closed and the summary for posting brought into the main cashbook.

Make in the cashbook or in the petty cashbook, as required, with explanations, the necessary entries for the following selected transactions:

May 1, 19—. Cash in bank, $8740.

Cashed check No. 84 at the bank and received $25 in currency with which to establish a petty cash fund.

Discounted at the bank W. Dean's 60-day non-interest-bearing note for $800, dated April 1, and received credit for the proceeds.

2. Received from Jones & Co. a check for $50, for rent of office space.

5. Sent a check to George Hart for the invoice of April 26 amounting to $400; terms of purchase were 2/10, n/30.

7. Purchased postage stamps for currency, $5.

11. Paid $1.50 in currency to have the office cleaned.

12. Paid salaries by check, $250.

Received from Duncan Bros. a check for $500 to apply on account.

15. Received a bank draft from Winter & Co. for sale of May 5 amounting to $120; terms of sale were 2/10, n/30.

18. Paid $2.50 in currency for freight inward.

May 21. Sent a check to the Commercial Bank in full payment of our two months' interest-bearing note for $1000, due to-day.

23. William Rollins (proprietor) withdrew, in currency, $10 for personal use.

26. Received from H. Brown a check for $45, for interest due on his note.

Paid salaries by check, $250.

28. Purchased postage stamps for currency, $3.

29. Paid $1.50 in currency to send a cablegram.

31. The Commercial Bank notified us that W. Dean had failed to pay his note, which we had discounted on May 1. They charged our account with the note and protest fees of $1.75.

Cashed check No. 89 and received currency to replenish the petty cash fund.

Close the petty cashbook and bring down the balance. (As stated in the opening explanation, the posting from the petty cashbook is to be through the main cashbook.)

Close the cashbook and bring down the balance. Indicate in some clear manner how the amounts shown in the footings are to be debited and credited to the different ledger accounts, but do not post.

11. Use journal, cashbook, sales journal, and purchase journal.

Columns required in the four column journal are: Accounts Payable and General on the debit side; Accounts Receivable and General on the credit side.

Columns required in the cashbook are: General, Accounts Receivable, Discount on Sales and Net Cash on the receipts side; General, Accounts Payable, Discount on Purchases and Net Cash on the payments side.

On Nov. 1, 19—, Charles Brown, who has been conducting a retail business, forms a partnership with C. G. Hart, under the firm name of Brown & Hart. Brown turns over the assets to the new firm and the new firm assumes his liabilities. Hart is to invest cash equal to the net worth of Brown. In determining the net worth, Brown is to be credited with $3555 goodwill.

The following Balance Sheet is submitted as the basis of Brown's investment:

C. BROWN
Balance Sheet, October 31, 19—

Assets		*Liabilities and Net Worth*	
Cash	$ 1,300	Notes Payable	$ 1,000
Notes Receivable	2,200	Interest Accrued on Notes Payable	55
Accounts Receivable	6,000	C. Brown, Capital	16,445
Merchandise Inventory	8,000		
	$17,500		$17,500

Make any entries necessary to record the foregoing facts, assuming that the former books of C. Brown are to be used as the books of the partnership. C. G. Hart has given his check for the amount of his investment.

Assuming that three ledgers are to be used, make, with explanations, the entries for the following transactions:

Nov. 1, 19—. Bought of R. Grimes, Gloversville, N. Y., terms 3/10, 1/15, n/30, invoice of merchandise dated Oct. 29, $900.

3. Sold to Fred Weir, Albany, N. Y., terms 2/10, n/30. bill of merchandise, $1800. Sent a check to the New York Supply Co. for $87.60, for bill of office supplies.

6. Received from Fred Weir a 60-day note for $1500. dated to-day, to apply on account. A check for $500, received on Oct. 29 from A. C. Lamb and deposited on the same date, was returned by the bank marked "no funds."

12. J. Roth, a customer, has gone into bankruptcy owing the partnership $300 on a 30-day note. The trustee in bankruptcy remitted a check for $75 in full settlement of account.

Bought of M. Foote, Newburgh, N. Y., terms 3/10, 1/15, n/30, invoice of merchandise dated Nov. 8, $1200.

13. Paid salaries in cash, $450.

14. Sold R. Peters, Utica, N. Y., terms 2/10, n/30, bill of merchandise, $500.

Nov. 17. Received from R. Peters merchandise worth $25, sold to him on Nov. 14.

18. Discounted at the bank Fred Weir's 60-day note of Nov. 6 and received credit for the proceeds.

22. Taking advantage of the discount offer, we sent a check for $1000 to M. Foote to apply on their invoice of Nov. 8.

24. Received a bank draft from R. Peters for balance due on bill of Nov. 14.

26. Sold to Y. Hughes bill of merchandise, $800, and received his check in payment.

27. Paid salaries in cash, $450.

28. Paid by check the following bills: electric light, $37; telephone, $16.

29. Paid our note for $1000 in favor of F. Williams, due Dec. 1, with interest at 6% for one year. This note is the liability the firm assumed when the partnership was formed.

Foot and rule the journal, cashbook, sales journal, and purchase journal. Indicate in some clear manner how the amounts shown in the footings are to be debited and credited to the different ledger accounts, but do not post.

12. Use general journal, cashbook, sales journal, and purchase journal. Columns required in the general journal are: *debit side,* Accounts Payable, General; *credit side,* General, Accounts Receivable. Columns required in the cashbook are as follows: *receipts side,* General, Accounts Receivable, Sales Discount, Net Cash; *payments side,* General, Accounts Payable, Purchases Discount, Net Cash.

On November 30, 19—, Arthur Crayon, who has been conducting a retail grocery business, closes his books and finds that his capital is $5000, of which $1200 represents cash in the bank. He decides to form a partnership with Charles Moran under the firm name of Crayon & Moran, using the books formerly used by Crayon. Crayon is to be credited with $1000 goodwill, and Moran is to invest cash equal to the new net capital of Crayon.

Enter the cash balance in the cashbook and make any entries necessary to record the goodwill, Charles Moran's ad-

mission into the partnership and the receipt of Moran's check for $6000.

Make, with explanations, the entries necessary for the following selected transactions:

Dec. 1, 19—. Paid the Court Realty Company for December rent, $250.

6. Ordered from Dean & Company, Albany, N. Y., merchandise costing $860; terms, sight draft attached to bill of lading.

8. The Commercial Bank notified us that a bill of lading with sight draft attached had been received from Dean & Company for invoice of December 6. A check was dispatched to the bank, the bill of lading was taken up and presented to the freight agent, and the merchandise from Dean & Company obtained.

Sold R. Turnbull, Troy, N. Y., merchandise, $600, terms 2/10, n/30.

10. Bought from C. M. Glade, Buffalo, N. Y., merchandise, $715, terms 2/10, n/30.

R. Turnbull returned unsatisfactory goods billed to him on Dec. 8. A credit memorandum for $50 was mailed him.

12. Paid freight on incoming merchandise, $27.50.

Sold R. Trend, Syracuse, N. Y., merchandise, $900, terms 30-day note.

15. Received from R. Trend a 30-day note dated December 13, for our invoice of December 12.

Paid salesmen's salaries for two weeks, $150.

17. Received a check from R. Turnbull for balance due on invoice of Dec. 8.

18. Paid our note for $2500 in favor of the Commercial Bank, due to-day, with interest at 6% for two months.

Paid C. M. Glade for invoice of Dec. 10.

20. Discounted at the bank R. Trend's 30-day note of Dec. 13 and received credit for the proceeds.

29. Paid salesmen's salaries for two weeks, $150.

31. Gave check for $31 to the National Gas Company for gas and electric bill for month.

Foot and rule the journal, sales journal, and purchase journal. Close the cashbook and bring down the balance. Indicate clearly how the column totals in each book are to be posted to the different ledger accounts, but do not post.

13. Prepare a statement to reconcile the following: Balance per check book, October 31, 19—, $1017.40; balance per pass book on the same date, $1759.48; collection and exchange charges not entered in the check book, $3.14; checks outstanding: No. 456, $142.79; No. 459, $35.17; No. 460, $269.54; No. 462, $297.72.

14. Use journal, cashbook, sales journal, and purchase journal. Columns required in the four column journal are: *debit side,* Accounts Payable, General; *credit side,* Accounts Receivable, General. Columns required in the cashbook are: *receipts side,* General, Accounts Receivable, Discount on Sales, Net Cash; *payments side,* General, Accounts Payable, Discount on Purchases, Net Cash.

On July 1, 19—, the Balance Sheet of Robert Hibbard and Samuel Russell, doing business as equal partners under the firm name of Hibbard & Russell, showed the following:

Cash on hand and in bank, $1718.36; notes receivable (A. Aaron's non-interest-bearing note for $450, dated June 5 at two months); accounts receivable (C. Cain, $525; D. Dorn, $850; Eastwood Bros., $299.01); bonds receivable, $1000; accrued interest receivable, $30; furniture and fixtures, $370; notes payable (60-day interest-bearing 6% note for $1510 in favor of Klein Bros., dated May 22); accounts payable (F. King, $1000; Leonard Morey, $925); unpaid printing bill, Martin Bros., $41.50; accrued interest payable, $10.07; merchandise inventory, $700.

Open new books for Hibbard & Russell with the opening entry in the general journal and the cash balance in the cashbook. Make entries also for the following selected transactions:

July 1, 19—. Paid Hamilton Realty Company for July rent, $225.

Paid Martin Bros. printing bill of June 15, $41.50, less 2%.

Sold R. B. Bond, Syracuse, N. Y., merchandise, $360.50, terms 2/10, n/30.

Gave James Rogers, Utica, N. Y., our check for merchandise, $615.60.

Received from C. Cain his 30-day note on account, $300.

July 5. D. Dorn paid his account in full, less 2%.

Discounted A. Aaron's note of June 5 at the bank and received credit for the proceeds.

Bought of the Western Grain Company, Buffalo, N. Y., merchandise, $1425. Gave our 60-day note for $1000, balance on account.

Paid postage and petty expenses, $7.20.

8. Robert Hibbard took from the business for personal use merchandise valued at cost, $15.

Bought of Brookins Bros., Salem, Mass., merchandise, $850, terms 3/10, n/30.

Received cash for accrued interest $30.

Sold David Carkner, Troy, N. Y., merchandise, $320, terms 2/10, n/30.

R. B. Bond paid his bill of July 1.

10. Gave F. King for invoice of June 21 on account, $600.

Bought of National Motor Truck Company new delivery truck, $1200. Gave in payment a $500 six per cent bond at par with 10 days' accrued interest, balance by check.

12. Discounted at the First National Bank our 90-day non-interest-bearing note for $1000 and received credit for the proceeds, $985.

Paid freight on incoming merchandise, $62.10.

Paid Western Grain Company balance on invoice of July 5.

Foot and rule the journal, sales journal, and purchase journal. Close the cashbook and bring down the balance. Indicate in some clear manner how the amounts shown in the footings are to be debited and credited to the different ledger accounts, but do not post.

15. Use journal, cashbook, sales journal, and purchase journal. Columns required in the four column journal are:

debit side, Accounts Payable, General; *credit side,* Accounts Receivable, General. Columns required in the cashbook are: *receipts side,* General, Accounts Receivable, Discount on Sales, Net Cash; *payments side,* General, Accounts Payable, Discount on Purchases, Net Cash. Make entries in the above books for the following data:

On April 30, 19—, David Dewey and Raymond Raynor, equal partners of the firm of Dewey & Raynor, opened a new set of books with assets and liabilities as follows: cash on hand, $18.30; in bank, $4160; B. B. Watson's 90-day non-interest-bering note for $1600, dated February 27, 19—; accounts receivable, $1950 (D. Daniels, $400; F. Foster, $700; G. Gregory, $850); accrued rent receivable from flats over store for April, $120; merchandise inventory, $42,300; store building and lots, $17,500; furniture and fixtures, $800; reserve for doubtful accounts, $234.30; the firm's 60-day interest-bearing 6% note for $9000 in favor of Peters & Son, dated April 10 (record the accrued interest payable); accounts payable, $3000 (E. Rednor, $1200; R. Stoner, $1800).

May 1, 19.— Bought of Hammer & Son, Syracuse, N. Y., invoice of merchandise $650, terms 2/10, n/30.

3. Received from tenants $240 for April and May rent for flats over store.

4. Bought of Hudson Paper Company invoice of typewriting paper and letterheads for office use, $16.50. Gave check in payment.

5. Sold Sammons Bros., Toledo, Ohio, bill of merchandise, $420, terms 30-day trade acceptance.

7. Paid salaries for week, $78.

8. D. Daniels, a customer, went into bankruptcy. Received from the trustee in bankruptcy a New York draft for one half the amount owed. Accepted the draft as payment in full and closed the account.

10. Bought of Holden Lumber Company, City, invoice of lumber for addition to store, $720. Gave check in payment.

11. Received the trade acceptance from Sammons Bros. for invoice of May 5.

Bought of E. Rednor, Binghamton, N. Y., invoice of merchandise, $1250, terms 3/10, n/30.

May 13. Sent R. Stoner check in full of account, $1800, less 2% discount.
14. Returned to E. Rednor unsatisfactory goods billed to us on an April invoice. Rednor sent us a credit memorandum for $200.
15. G. Gregory sent a check in full of account, less 1% discount.
20. Sent E. Rednor our check in full of account, less 3% on invoice of May 11.
21. Paid salaries, $156.
24. Sold G. Yerger, Watertown, N. Y., bill of goods, $660, terms 2/10, n/30.
25. Paid for office supplies, $17.50.
28. B. B. Watson paid his note due to-day.
31. Received G. Yerger's check in payment of invoice of May 24.

Foot and rule the journal, sales journal, and purchase journal. Close the cashbook and bring down the balance. Indicate in some clear manner how the amounts shown in the footings are to be debited and credited to the different ledger accounts, but do not post.

16. On Dec. 31, 19—, your ledger accounts for Accounts Receivable and Accounts Payable showed balances of $1,000 and $350, respectively.

The transactions with customers and creditors during the three months ending Mar. 31, 19—, are given in the following summary:

Sales, $4,500; purchases, $2,750; our notes issued to creditors, $1,000; cash received from customers, $2,105; notes and acceptances received from customers, $450; returned sales, $475; allowances on purchases, $45; cash paid to creditors, $1,425; bad debts charged off, $156; purchase discount, $125; sales discount, $325; returned purchases, $240; allowances on sales, $64; expenses paid by us and charged to customers, $25.

(a) With the balances given above for Dec. 31, open ledger accounts for Accounts Receivable and Accounts Payable to begin the new year.

(b) Make the proper entries in these accounts for the transactions given for the three months ending Mar. 31, 19—,

and indicate in the explanation space the book of original entry from which each item is obtained.

(c) Balance the accounts as of Mar. 31, 19—.

17. At the close of the six months' business, July 1, to Dec. 31, 19—, the trading and profit and loss accounts of the Niagara Supply Co. showed the following balances: sales, $437,565; sales returns and allowances, $4,670; inventory July 1, $30,000; purchases, $414,800; freight inward, $5,165; purchases returns and allowances, $3,892; salesmen's salaries, $2,500; advertising, $1,265; freight outward, $385.70; office salaries, $2,187; general expenses, $1,500; interest earned, $235.85; interest cost, $48.64; discount on sales, $5,343; discount on purchases, $4,970; insurance, $600; rent, $1,500.

The following information affecting the operations of the period is supplied: inventory Dec. 31, $41,860; interest accrued on notes receivable, $35.75; interest accrued on notes payable, $48; unexpired insurance, $500. Provision is made for a reserve of ½ of 1% on net sales for bad debts.

From the foregoing facts, prepare a Profit and Loss Statement for the period.

18. The following Trial Balance is taken from the general ledger of Bell & Daniels, March 31, 19—; from it and the appended data prepare:

(a) A Balance Sheet.

(b) A Statement of Profit and Loss for the year.

Cash	$ 8,140	
Notes Receivable	2,000	
Accounts Receivable	2,423	
Merchandise Inventory, March 31, 19—	6,770	
Furniture and Fixtures	1,200	
Delivery Equipment	1,800	
Notes Payable	.....	$ 1,695
Accounts Payable	.....	6,000
Merchandise Purchases	16,220	
Merchandise Sales	.....	14,480
Purchase Returns	.....	250
Rent	1,200	
Office Expense	28	
General Expense	128	
Salaries	800	
Interest Cost	24	
Sales Discount	224	
Purchase Discount	.....	122
Commission Income	.....	150

A. B. Bell, Drawing	370	
A. B. Bell, Capital		9,500
B. C. Daniels, Drawing	370	
B. C. Daniels, Capital		9,500
	$41,697	$41,697

Merchandise Inventory, March 31, 19—	$14,220
Rent Due and Unpaid	200
Depreciation on Delivery Equipment, 40%	
Depreciation on Furniture and Fixtures, 5%	

19. On October 1, 19—, the end of a six months' period, the ledger accounts of Nye & Wood show the following balances: (The partnership agreement provides that profits and losses are to be shared equally.)

Cash	$ 14,335.83	
Notes Receivable	14,650	
Accounts Receivable	19,265.32	
Reserve for Bad Debts		$ 3,621.20
Mdse Inventory, April 1, 19—	59,870.42	
Land and Buildings	35,000	
Furniture and Fixtures	1,500	
Notes Payable		10,000
Accounts Payable		18,295.18
A. F. Nye, Capital		59,446
C. B. Wood, Capital		59,446
Sales		104,000
Sales Returns	450	
Purchases	98,019.50	
Purchases Returns		410.60
Freight In	2,586	
Salesmen's Salaries	2,800	
Salesmen's Expenses	1,187.45	
Freight Out	419.30	
Office Salaries	2,500	
Office Supplies	226.30	
General Expense	1,567.37	
Insurance	265	
Interest Income		385.64
Purchase Discount		1,976.80
Interest Cost	319.93	
Sales Discount	2,619	
	$257,581.42	$257,581.42

Additional information:

Merchandise Inventory, October 1, 19—	$72,500
Accrued Interest Receivable	56.50
Furniture and Fixtures depreciated 10%	
Insurance Unexpired	140
Reserve ½ of 1% of Net Sales for Bad Debts	
Salesmen's Salaries Due and Unpaid	100

Prepare a Balance Sheet and a Statement of Profit and Loss.

20. The following Trial Balance is taken from the general ledger of Brown & Wilson, May 31, 19—; from it and the appended data construct (a) a Balance Sheet showing classified assets and liabilities, (b) a Statement of Profit and Loss for the fiscal year ending May 31, 19—. (Profits and losses are to be shared equally.)

Cash	$ 300	
Notes Receivable	800	
Accounts Receivable	6,830	
Reserve for Bad Debts		$ 116
Equipment	3,000	
Reserve for Equipment		750
Land and Buildings	15,000	
Merchandise Inventory, May 31, 19—	3,500	
Sales		12,500
Purchases	8,400	
Sales Allowances	200	
Returned Purchases		172
Freight and Expressage In	200	
Office Stationery	180	
Sales Clerks' Wages	750	
Office Expense	158	
Discount on Sales	193	
Discount on Purchases		121
Interest Earned		11.50
A. J. Brown, Capital		7,500
A. J. Brown, Personal	350	
R. M. Wilson, Capital		7,500
R. M. Wilson, Personal	244.50	
Accounts Payable		3,435
Mortgage Payable		8,000
	$40,105.50	$40,105.50

Additional information available May 31, 19—:

Merchandise inventory	$2,800
Equipment has depreciated 10% of original cost	
Sales clerks' wages accrued since last pay day	90
Value of office stationery on hand	165
Interest accrued on an $800 note receivable, dated April 16	6

Add to the Reserve for Bad Debts ¼ of 1% of net sales.

21. Arrange the following items of information in Trial Balance form:

Cash		$ 9,000
Real Estate		20,000
Accounts Receivable	$5,000	
Less Reserve for Bad Debts	27	
		4,973

Furniture and Fixtures	$1,200	
Less Reserve for Depreciation	45	
		1,155
Prepaid Insurance		95
Wages (Unpaid)		48
Rent Earnings (Collected in Advance)		105
Mortgage Payable		11,000
Interest on Mortgage Payable (Accrued)		55
R. A. Mills, Investment		24,000
R. A. Mills, Personal (Excess of Profit over Drawings)		15

22. The following Trial Balance was taken from the general ledger of Blake & Cooper, December 31, 19—. From this trial balance and the information that follows, make a classified Balance Sheet as of December 31, 19—, and a Statement of Profit and Loss for the period. (The partnership agreement provides that profits and losses shall be shared equally.)

H. Blake, Capital	.....	$ 25,000
W. Cooper, Capital	.....	25,000
H. Blake, Personal	.....	260
W. Cooper, Personal	$ 165	
Cash	18,840	
Accounts Receivable	24,490	
Notes Receivable	9,380	
Reserve for Bad Debts	.....	140
Office Furniture	1,500	
Delivery Equipment	9,600	
Notes Payable	.....	2,570
Accounts Payable	.....	18,365
Purchases	30,660	
Merchandise Inventory, January 1, 19—	11,356	
Purchases Returns and Allowances	.....	480
Sales	.....	48,350
Sales Returns and Allowances	790	
Stationery	150	
Insurance	375	
Rent	2,400	
Taxes	220	
Office Salaries	4,210	
Telephone	84	
Salesmen's Salaries	4,480	
Salesmen's Traveling Expenses	1,620	
Freight Out	110	
Freight In	425	
Interest Cost	95	
Discount on Sales	1,260	
Interest Income	.....	170
Discount on Purchases	.....	1,875
	$122,210	$122,210

Additional information:

Merchandise Inventory, December 31, 19—	$14,360
Unused Stationery	70
Unexpired Insurance	125
Accrued Office Salaries Payable	195
Accrued Interest Receivable	95
Accrued Interest Payable	70

Reserve for Doubtful Accounts, ¼% of net sales.

Reserve for Depreciation, 5% of the Ledger Value of Office Furniture and 10% of the Ledger Value of Delivery Equipment.

23. On Nov. 30, the Trial Balance of a wholesale merchant contains in part the following items:

1. Shipping Supplies	$675.00	
2. Advertising	950.00	
3. Insurance	350.75	
4. Interest on Notes Receivable		$276.82
5. Taxes	550.25	

The inventory of shipping supplies amounts to $286.75, which includes a recent purchase of $35 that has not been entered. These supplies were received Nov. 29. Item 2, "Advertising," represents an advance payment on a six months' contract, beginning Nov. 1, for $2400. Item 3, "Insurance," represents the cost of insurance for eight months, beginning Nov. 1. Accrued interest on notes receivable amounts to $42.36. Item 5, "Taxes," represents the unexpired taxes on Nov. 1 for the calendar year.

From the Trial Balance data given above, (a) set up the required ledger accounts, (b) make in these accounts the entries required to record the additional facts given and to close the accounts.

24. B. Arnold and H. Berry are partners engaged in a wholesale business. Arnold's capital is $8000 and Berry's capital is $16,000. At the end of six months, their books show a net profit of $3000. Their partnership agreement provides that each partner shall receive interest on capital invested at the rate of 6%.

(a) Compute the interest on the capital of each partner and make the necessary journal entries to transfer the amounts to their personal accounts.

(b) Divide the remaining profits equally between the partners and make the journal entries necessary to transfer these amounts to their personal accounts.

(c) Explain why interest on Capital accounts is sometimes allowed to members of a partnership.

25. At the time of closing the books of the X. Mercantile Co. on December 31, 19—, the following facts are to be recorded:

(a) A reserve of 2% for depreciation on buildings worth $25,000 is to be set aside.
(b) Interest accrued to date on notes payable amounts to $14.50.
(c) Wages accrued since the last pay day are $320.
(d) Loss on bad debts is estimated to be 1% on net sales for the year (net sales for the year, $8000).

Construct with explanations, the necessary journal entries.

26. In a partnership the capital accounts show investments as follows: *A*, $7000; *B*, $4000. Their drawing accounts show: *A* (Dr.), $100; *B* (Cr.), $50. The Profit and Loss account shows a net profit of $2200. The partnership agreement states that profits and losses are to be shared equally after providing for interest at 6% on original investments. Assuming a period of one year, show each partner's net worth.

27. The bank statement that the Carter Bread Company received July 1, 19—, showed a balance of $2196.55. The following items appeared on the statement, but not in the check book; interest credit, $3.11; a Carter Bread Company note for $300 paid by the bank on June 29. A deposit on June 30 of $288.30 did not appear on the statement.

The following checks were found to be outstanding: No. 155, $173.15; No. 163, $72.10; No. 179, $5.08. The check book showed a balance of $2531.41. Prepare a statement reconciling the bank balance.

28. On December 31, 19—, Steele & Johnson's Delivery Equipment account showed motor trucks costing $8200, with 20% of this cost reserved for depreciation and charged to the Profit and Loss account. On December 25, of the following year, their motor trucks were completely destroyed by fire and the insurance company made a cash settlement in full of $4000. Show Steele & Johnson's Delivery Equipment account

and Reserve for Depreciation of Delivery Equipment account assuming that no other purchases of delivery equipment had been made.

29. In starting a petty cash account, assume that the amount of the initial check to be drawn and cashed is $100. Assume further that at the end of the month the analysis of the petty cashbook shows classified expenses, for which receipted vouchers have been received, to be as follows: stationery, $18.90; expressage, $27.31; office expenses, $32.75; postage, $20.

(a) Show, with explanation, the correct entry to be made when starting the petty cash fund.

(b) Give, with explanation, the usual entry necessary to distribute the several expense items on the general ledger.

30. On May 17, 19—, C. E. Burns, Binghamton, N. Y., owned $1500 in cash. On the same day he ordered of the Western Grain Co., Chicago, Ill., 1 car fancy clipped white oats. The oats were shipped May 23, and arrived in Binghamton, June 4. The invoice weight was 51,200 lb. net. The price was 67¢ a bushel (1 bu.=32 lb.), f. o. b. Binghamton, and the terms were "seller's draft on buyer at sight with documents attached." The freight, at 15¢ a hundred, was paid by the buyer and charged to the seller. When the draft was presented to Burns on May 28, he drew his check on the Third National Bank of Binghamton for the amount, and all of the documents were delivered to him.

Sales were made by Burns from the carload of oats as follows: June 7, 500 bu. @ 85¢; June 10, 400 bu. @ 86¢; June 12, 800 lb. @ $2.40 a hundred, all for cash. Expenses were paid in cash as follows: June 4, $5.65; June 10, $6.40. The oats unsold on June 13, were inventoried at cost. Set up and close the following ledger accounts: Stock of oats, Sales, Western Grain Co., Expense, Profit and Loss, C. E. Burns, and Cash.

Chapter XX

CORPORATIONS

The corporate type of business organization.—The sole proprietor and partnership types of business organization have already been explained. A third type of business organization requiring explanation is that known as the *corporation.*

Corporation defined.—"A corporation is an artificial person authorized by law, created by charter, and having, in addition to the powers expressed in its charter, the implied powers of a natural person."

A corporation may sue and be sued in its own name, just as though it were a natural person. For this reason it is referred to as "an artificial person." It gets this authority to sue and be sued in its own name by law. Thus we say that "it is authorized by law." It comes into legal existence as the result of a charter procured from the state under whose laws it decides to function. Therefore, we say "it is created by charter." Finally, it has all the legal powers which a natural person has in the conduct of a business. Consequently, we say that "it has, in addition to the powers expressed in its charter, the implied powers of a natural person."

Formation of a corporation.—A business corporation is formed under the laws of some state. The corporation laws of the different states prescribe the procedure which must be followed in applying for a charter, and the conditions under which a charter may be granted.

The usual procedure in forming a corporation is to file a statement, known as a *certificate of incorporation,* with some designated state official. This certificate, when approved by the state official, becomes the corporation's charter to function under the laws of that state.

The following quotations of Article 2, of the Revised Stock Corporation Law of the State of New York, will serve to il-

lustrate the conditions under which a charter may be obtained in that State:

THE STOCK CORPORATION LAW

Article 2

Incorporation.—Three or more persons may become a stock corporation for any lawful business purpose or purposes except to do, in this State, any business for which a corporation may be formed under, or pursuant to the banking law, the insurance law, the railroad law, or the transportation corporations law, by making, subscribing, acknowledging, and filing a certificate which shall be entitled and endorsed "Certificate of Incorporation of ——— , pursuant to Article Two of the Stock Corporation Law" [the blank space being filled in with the name of the corporation] and which shall state:

1. The name of the proposed corporation.
2. The purpose, or purposes, for which it is to be formed.
3. Either the amount of the capital stock and the number and par value of the shares of which it is to consist, or, if the corporation is to issue shares without par value, the statements required by section twelve.
4. If the shares are to be classified, the number of shares to be included in each class and all of the designations, preferences, privileges and voting powers or restrictions or qualifications of the shares of each class.
5. The city, village, or town and the county in which the office of the corporation is to be located.
6. Its duration.
7. The number of its directors, not less than three.
8. The names and post-office addresses of the directors until the first annual meeting of the stockholders; and, if such address shall be in a city, the street and number or other particular description thereof. The number of the directors so named must be the number stated pursuant to the last preceding sub-division of this section.
9. The name and post-office address of each subscriber of the certificate of incorporation, and a statement of the number of shares of stock which he agrees to take. If the address of any such subscriber shall be in a city, the street and number or other particular description thereof.
10. That all of the subscribers of the certificate are of full age, that at least two-thirds of them are citizens of the United States, and that at least one of them is a resident of the State of New York; that at least one of the persons named as a director, is a citizen of the United States and a resident of the State of New York.
11. If meetings of the board of directors are to be held only within the State, the certificate or by-laws must so provide.

Certificate of stock—evidence of ownership in corporations.—When an individual makes an investment in a corporation he becomes known as a stockholder, since he receives as evidence of his ownership a certificate of stock filled in for the proper number of shares. This certificate contains a statement of the conditions under which the stock is issued. On the face of each certificate is printed the nominal, or par, value given each share of stock.

Par value.—The laws of the various states provide a minimum and a maximum *par value* which may be placed upon a share of stock. Thus, stock may be given a par value of any amount ranging from $1 to $100, which is the maximum allowed in most states. Accordingly, stocks of a par value of $1, $5, $10, $25, $50, and $100 are quite common. The laws of some states prohibit corporations from issuing stock below par value.

No-par value.—Many states have enacted laws permitting corporations to issue stock without a value placed upon the shares. The charter in such cases provides for an authorized issue of a definite number of shares of stock, but the stock is given no value and therefore is known as *no-par value stock*. Both preferred and common stock of no par value may be authorized by charter.

The certificate of stock in such cases has printed on its face the phrase "No par value."

Some states prohibit corporations from issuing no-par value stock below a stated amount, such as, for example, $5 per share. The tendency, however, is to place no restrictions upon the issuance of such stock.

It should be noted that different cerificates are issued for the different classes of stock.

Classes of capital stock.—Capital stock may be defined as the amount of stock, or the number of shares of stock, which a corporation is authorized to issue by its charter. Capital stock may be divided into two classes, namely, *common stock* and *preferred stock*.

The chief distinction between these two classes of stock is the extent to which they participate in the earnings of the corporation, and the order in which they share in the assets in the event of dissolution.

The earnings in the case of a corporation are usually distributed periodically, quarterly or semi-annually, and then only by action of the board of directors. Such distributions of profits are known as *dividends*.

Common stock.—Common stock is that class of ownership in a corporation which has no special privileges or preferences.

Common stock usually, but not always, carries with it the voting rights in a corporation. Moreover, after all obligations have been met, including dividends on other stock of the corporation, the earnings which then remain in the corporation are usually available for the common stock. Thus, the dividend which may be declared on common stock is by no means fixed and may vary with the earnings of the corporation.

Preferred stock.—Preferred stock is stock which has preference over other stock. It may be preferred as to assets or as to dividends, or as to both; but it is commonly understood to mean preferred as to dividends.

"Preferred as to dividends" means that this stock is entitled to a specified rate of dividend, as shown on the certificate of stock, out of the earnings before any dividend is given to the stock with no preference. If the stock is preferred as to dividends, it may be either cumulative or non-cumulative, and participating or non-participating.

"Preferred as to assets" means that, in case of dissolution of the company, the holders of the stock will receive their portion of the proceeds of dissolution before holders of other stock, not preferred as to assets, will participate.

Cumulative preferred stock.—This is stock the stipulated dividend of which, if not paid in full in one or more years, carries over from year to year until fully paid.

Non-cumulative preferred stock.—Provision may be made in the certificate of incorporation whereby the corporation is not obligated to pay, in the future, dividends in arrears on preferred stock. Preferred stock issued under such conditions is known as non-cumulative.

Participating preferred stock.—Participating preferred stock is stock which is to receive, first, its preferential dividend at the stipulated rate; and after that, is to participate, or share, with the other stock in the remainder of the funds declared as dividends.

Non-participating preferred stock.—Non-participating preferred stock is stock which, through the terms of its issue and sale, is to receive only the preferential dividend stipulated in the certificate.

By-laws of the corporation.—A corporation is governed by the corporation laws of the state in which it is incorporated, or in which it transacts business; by the provisions of its charter; and by its by-laws.

By-laws are the permanent rules of corporate action, as distinguished from motions and resolutions. The latter usually apply only to particular occasions and special matters. Unless otherwise provided for either by statute, charter provision, or action of the stockholders themselves, by-laws are enacted by the stockholders. Among other things, they prescribe how stock shall be issued; when corporate meetings shall be held; and what are the duties and powers of directors and officers.

The working organization of the corporation.—The working organization of a corporation usually consists of a board of directors, which is elected by the owners of the corporation, known as the stockholders. The directors, in turn, elect the officers of the corporation, who are designated by titles such as president, vice-president, treasurer, and secretary. Through these officers, the policies and actions of the board of directors are carried out. The officers of the corporation, in some cases with the consent of the board of directors, engage the subordinates to manage and operate the various departments of the business. These subordinates are known as the *employees*. As a rule, the directors receive no pay for their services except a nominal fee for attending directors' meetings, whereas salaries are paid to officers and employees.

These three groups, namely, the board of directors, the officers, and the employees, are the medium through which a corporation transacts business in its own name, as an artificial person and as a legal entity. Thus, it will be seen that the corporation owns the business and the stockholders own the corporation.

The management of the corporation.—Although the stockholders are the owners of the corporation, the actual management of the corporation is vested in the board of directors.

Unlike a sole proprietor or a partner, the stockholder in a large corporation, unless he owns many shares of stock, has no

voice in the management of the affairs of the corporation; nor has he any control over his investment in the corporation except that (unless otherwise provided for in the certificate of incorporation) he has a right to vote at the stockholders' meeting.

In a small corporation, in which there are but a few stockholders, the latter very often constitute both the board of directors and the officers of the corporation. In such cases, the stockholders are, of course, both the managing directors and officers of the corporation and, as such, exercise full control over the affairs of the corporation.

Proprietorship of corporations.—As in the case of the sole proprietorship and the partnership types of business organization, so also in the case of a corporation, proprietorship is measured by the difference between the assets and the liabilities of the business. The same fundamental equation, namely,

$$\text{Assets} = \text{Liabilities} + \text{Proprietorship}$$

or, if there are no liabilities,

$$\text{Assets} = \text{Proprietorship}$$

applies equally to these three types of business organization.

Accounting for corporate proprietorship.—The chief problem of corporation accounting is that of accounting for corporate proprietorship.

It will be remembered that, in the case of a sole proprietor, a Capital account is kept in the general ledger in the name of the proprietor. Likewise, in the case of a partnership, an individual Capital account is kept in the general ledger in the name of each partner. Thus, in these two types of business organization, individual Capital accounts are kept in the general ledger.

In so far as accounting for proprietorship is concerned, corporation accounting differs from sole proprietorship and partnership accounting in that accounts are kept in the general ledger reflecting *collective* ownership, instead of *individual* ownership, as is the case in a sole proprietorship or partnership type of organization.

Accordingly, in a corporation, one or more accounts are usually kept in the general ledger to record collective ownership of stock. Such accounts are given the name of Capital Stock; and one or more accounts are kept in the general ledger to record collective ownership of earnings. Such accounts are known as Surplus accounts.

The following illustrations will serve to show how proprietorship is reflected on the Balance Sheet of a corporation.

Illustrating corporate proprietorship accounts on the Balance Sheet.—For the purpose of illustration, assume that $30,000 cash was invested in a business on Jan. 1, 19—, and that the net profit for the year was $6,000. Consider also the following:

Sole Proprietorship .....E. Edwards invests $30,000 cash.

Partnership.....E. Edwards, F. Flynn, and G. Grant each invest $10,000 cash and share profits equally.

Corporation.....E. Edwards, F. Flynn, and G. Grant each invest $10,000 cash, and each receive 100 shares of stock.

The Balance Sheets at the beginning and at the close of the year, for the three types of organization, would be as follows:

E. EDWARDS
Balance Sheet, January 1, 19—

Assets		*Proprietorship*	
Cash	$30,000	E. Edwards, Capital	$30,000

EDWARDS & FLYNN
Balance Sheet, January 1, 19—

Assets		*Proprietorship*	
Cash	$30,000	E. Edwards, Capital	$10,000
		F. Flynn, Capital	10,000
		G. Grant, Capital	10,000
	$30,000		$30,000

EDWARDS COMPANY, INCORPORATED
Balance Sheet, January 1, 19—

Assets		*Proprietorship*	
Cash	$30,000	Capital Stock	$30,000

The three Balance Sheets are easily distinguished by the accounts reflecting proprietorship. It should be noted that, in the case of the corporation, collective proprietorship is shown; that is, Edwards, Flynn, and Grant are equal stockholders, but their ownership in the corporation is shown collectively by means of the Capital Stock account. The Balance Sheets at December 31, 19—, follow:

E. EDWARDS
Balance Sheet, December 31, 19—

Assets		*Proprietorship*	
Cash	$36,000	E. Edwards, Capital	$36,000

EDWARDS & FLYNN
Balance Sheet, December 31, 19—

Assets		*Proprietorship*	
Cash	$36,000	E. Edwards, Capital	$12,000
		F. Flynn, Capital	12,000
		G. Grant, Capital	12,000
	$36,000		$36,000

EDWARDS COMPANY, INCORPORATED
Balance Sheet, December 31, 19—

Assets		*Proprietorship*	
Cash	$36,000	Capital Stock	$30,000
		Surplus	6,000
	$36,000		$36,000

It is apparent from a comparison of the three Balance Sheets of January 1 and of December 31, 19—, that the profit of $6,000 was credited in the case of the sole proprietor to Edwards' Capital account; and that, in the case of the partnership, $2,000 was credited to each of the three partners' Capital accounts; whereas, in the case of the corporation, the

profit $6,000 was credited to the Surplus account. The Surplus account and the Capital Stock account together represent the total proprietorship, or ownership, in the corporation. Edwards, Flynn, and Grant own an equal number of shares of stock in the corporation; therefore, the ownership of each may be determined by dividing the total by three.

Ownership of the individuals in a corporation.—As has already been explained, ownership in a corporation is evidenced by shares of stock issued to the stockholders, who are the owners. The total number of shares of stock outstanding represents the total ownership in the corporation. The unit of ownership is, therefore, the share. In a corporation which has only one class of stock outstanding, the ownership of any individual stockholder is measured by the fraction, or percentage, of the net worth of the corporation which he owns, or the ratio which the number of his shares bears to the total number of shares outstanding.

For the purpose of illustration, consider again the Balance Sheets of the Edwards Company, Incorporated. It will be remembered that each stockholder holds 100 shares of stock. The Balance Sheets follow:

EDWARDS COMPANY, INCORPORATED
Balance Sheet, Jan. 1, 19—

Assets		*Proprietorship*	
Cash	$30,000.00	Capital Stock	$30,000.00

EDWARDS COMPANY, INCORPORATED
Balance Sheet, Dec. 31, 19—

Assets		*Proprietorship*	
Cash	$36,000.00	Capital Stock	$30,000.00
		Surplus	6,000.00
	$36,000.00		$36,000.00

The Balance Sheet at January 1, 19—, showed a net worth of $30,000, as shown by the Capital Stock account. The total number of shares outstanding is 300, of which Edwards, Flynn, and Grant each owns 100 shares. Thus, the individual ownership of the three stockholders may be determined as follows:

Edwards' Shares / Total Shares = 100/300 = ⅓ of Net Worth of $30,000 = $10,000

Flynn's Shares / Total Shares = 100/300 = ⅓ of Net Worth of $30,000 = 10,000

Grant's Shares / Total Shares = 100/300 = ⅓ of Net Worth of $30.000 = 10,000

Total $30,000

Proceeding in the same manner, we find that the Balance Sheet at December 31, 19—, reflects a net worth of $36,000, as is shown by the combined Capital Stock and Surplus accounts. Therefore, the individual ownership of the three stockholders may be determined by the percentage method as follows:

Edwards' Shares / Total Shares = 100/300 = 33⅓% of Net Worth of $36,000 = $12,000

Flynn's Shares / Total Shares = 100/300 = 33⅓% of Net Worth of $36,000 = 12,000

Grant's Shares / Total Shares = 100/300 = 33⅓% of Net Worth of $36,000 = 12,000

Total $36,000

Another method of determining individual ownership, in corporations that have only one class of stock outstanding, is to find the value per share of stock issued and outstanding, according to the net worth of the corporation, and then to multiply the value per share by the number of shares held by the individual.

January 1, 19—

Net Worth / Shares Issued = $30,000/300 = $100 value per share

Edwards' ownership is equal to 100 × $100 = $10,000
Flynn's ownership is equal to 100 × $100 = 10,000
Grant's ownership is equal to 100 × $100 = 10,000
Total $30,000

December 31, 19—

Net Worth / Shares Issued = $36,000/300 = $120 per share.

Edwards' ownership is equal to 100 × $120 = $12,000
Flynn's ownership is equal to 100 × $120 = 12,000
Grant's ownership is equal to 100 × $120 = 12,000
Total $36,000

From the foregoing, it will be seen that the individual ownership of each stockholder was on January 1, $10,000, and on December 31, $12,000, and that the value per share of stock was on these dates, respectively, $100 and $120 per share. The increase in the value of the stock is due to profits earned and carried on the books, in the Surplus account. Thus, it will be seen that individual ownership in a corporation must be determined from the Balance Sheet in a manner similar to the procedure just illustrated; whereas, in the case of a sole proprietor or a partnership, individual ownership is reflected in the individual accounts kept in the ledger.

Different values of corporate stock.—Corporate stock has five different values, namely:

1. Nominal, or Par Value.
2. Book Value.
3. Intrinsic Value.
4. Market Value.
5. Liquidation Value.

Nominal, or par value.—This, as has already been explained, is the par value of the stock as printed on the certificate of stock.

Book value.—The value per share of stock, as shown by the books of the corporation, is known as the *book value.*

Intrinsic value.—The value per share of stock, as measured by the actual value of the net assets of the corporation, regardless of the value as shown by the books, is known as *intrinsic value.*

Market value.—The price at which the stock may be bought or sold in the open market is the *market value.*

Liquidation value.—The amount which is paid on each share of stock outstanding on the dissolution of a corporation, is the *liquidation value* of the stock.

Advantages and disadvantages of the corporate form.—Each type of business organization has certain advantages and disadvantages, as compared with each of the other two types of organization.

The individual proprietor, for example, is free to exercise his own judgment in the conduct of his business but, in contrast, his liability for business debts is unlimited.

Likewise, each individual partner has a voice in the management of the business, but he is jointly and severally liable with his co-partners for partnership debts.

In a large corporation, as has already been explained, the stockholders exercise no voice in the management of the corporation except the usual right to vote at the stockholders' meeting (unless otherwise provided in the certificate of incorporation). Their liability for the debts of the corporation is limited, however, to the amount of their investment in the corporation, except in the case of banks, which operate under different laws. It is this limited liability of the stockholders that is one of the chief advantages of the corporate type of organization.

Other advantages are:

1. *Continuous succession.*—Provision must be made in the certificate of incorporation for the life of the corporation. In most cases the life of the corporation is made perpetual. Thus, the death of any or all of the stockholders does not have any effect upon the corporation, in so far as its right to function as a corporate organization is concerned.

2. *Ease of raising capital.*—It is easier to raise capital under the corporate type of organization.

3. *Marketability of ownership.*—Except in the case of a small corporation, one can easily become a part owner in a corporation by purchasing stock of the corporation. Likewise, one may readily discontinue his relations as stockholder by selling his holdings of stock. Since they are dealt in on the stock exchange, stocks of the larger corporations have a ready market.

4. *Ease of management.*—The working organization of a corporation makes it possible to conduct a large business efficiently.

Disadvantages of the corporate type follow:

1. Stockholders have little voice in the management of the corporation.

2. The corporation is subject to strict governmental control.

3. Heavy taxes are imposed upon corporations. These at times are burdensome.

Review Questions

1. Name three legal types of business organization

2. Define a corporation.

3. What provision is made by law for the formation of corporations?

4. Describe the procedure in connection with the formation of a corporation.

5. May a corporation organize and do business without fulfilling the requirements of the law?

6. What information is, ordinarily, contained in the Certificates of Incorporation, or Charter?

7. What name is given to one who is a part owner in a corporation?

8. How is ownership in a corporation evidenced?

9. What is the difference between a share of stock and a stock certificate?

10. What is meant by " par value " of stock?

11. What is meant by " no-par value " stock?

12. Name two general classes of capital stock. Define each.

13. Name and explain different ways by which one class of capital stock may be " preferred " over another.

14. How is the government of a corporation provided for, within its own organization?

15. Who elects the board of directors of a corporation?

16. How is the president of a corporation chosen?

17. Who owns the assets of a corporation? What do stockholders own?

18. In general, what are the rights of stockholders?

19. How is proprietorship in a corporation shown on the books?

20. What is the difference between a partnership and a corporation, with respect to:

(a) Method of showing proprietorship on the books.
(b) Liability of members for debts?
(c) Division of profits?

21. With respect to shares of stock, what is meant by:

(a) Nominal value?
(b) Book value?
(c) Intrinsic value?
(d) Market value?
(e) Liquidation value?

22. How do you find the book value of a share of stock?

23. Name the advantages of the corporate form of business organization.

24. What are some disadvantages of the corporate form?

Chapter XXI

CORPORATIONS—Continued.

Opening Entries for a Corporation

Methods of opening corporate books.—There are two methods of opening corporate books. By the first method, only one Capital account is kept in the general ledger for each class of capital stock authorized by the charter, and no entries are made in the account until capital stock is actually issued. By the other method, two accounts, an "Unissued" and an "Authorized" account, are kept in the ledger for each class of stock (except no-par value stock) authorized by the charter. In the latter case, the entry recording the unissued and authorized stock is made in the accounts immediately on the formation of the corporation.

Entries to open corporation books, by the two methods described above, will now be illustrated, and a comparison made between the two methods.

For the purpose of illustration, consider the incorporation of the Atlas Trading Company, which was organized January 2, 19—, under the laws of the State of New York, with an authorized issue of $100,000 capital stock, divided into 500 shares of preferred and 500 shares of common capital stock, of a par value of $100 each.

Each of three incorporators subscribed and paid for 100 shares of preferred stock and 100 shares of common stock, both at par, and received stock certificates.

Method 1.—This illustrates the practice of making opening entries by the use of one Capital Stock account for each class of stock. The entry is expressed here in journal form, as follows:

Journal, January 2, 19—

	The Atlas Trading Company was this day organized under the laws of the State of New York, with an authorized issue of $100,000 capital stock, divided into 500 shares of preferred and 500 shares of common capital stock, of a par value of $100 per share.				
	Cash	60,000	00		
	Preferred Capital Stock			30,000	00
	Common Capital Stock			30,000	00
	To record receipt of cash from subscribers and the issuance to them of preferred and common capital stock.				

The ledger accounts follow:

Cash

19— Jan.	2	Capital Stock		60,000	00						

Preferred Capital Stock

						19— Jan.	2	Cash		30,000	00

Debit: With the par value when canceled.

Credit: With the par value when issued.

The balance in this account should be a credit. It represents the amount of preferred capital stock issued and outstanding.

Common Capital Stock

						19— Jan.	2	Cash		30,000	00

Debit: With the par value when canceled.

Credit: With the par value when issued.

The balance in this account should be a credit. It represents the amount of common capital stock issued and outstanding.

The Balance Sheet of the Atlas Trading Company follows:

ATLAS TRADING COMPANY
Balance Sheet, January 2, 19—

Assets		*Proprietorship*	
Cash	$60,000.00	Preferred Capital Stock.	$30,000.00
		Common Capital Stock..	30,000.00
	$60,000.00		$60,000.00

Method 2.—This illustrates the practice of making opening entries by the use of two Capital accounts for each class of stock. All entries are expressed here in journal form.

Journal, January 2, 19—

	The Atlas Trading Company was this day organized under the laws of the State of New York, with an authorized issue of $100,000 capital stock, divided into 500 shares of preferred and 500 shares of common capital stock, of a par value of $100 per share.				
	Preferred Capital Stock Unissued	50,000	00		
	Common Capital Stock Unissued	50,000	00		
	Preferred Capital Stock Authorized			50,000	00
	Common Capital Stock Authorized			50,000	00
	To record the authorized issue of capital stock consisting of 500 shares preferred and 500 shares of common stock, of a par value of $100 per share.				
	—2—				
	Cash	60,000	00		
	Preferred Capital Stock Unissued			30,000	00
	Common Capital Stock Unissued			30,000	00
	To record receipt of cash from subscribers and the issuance to them of preferred and common capital stock.				

The ledger accounts follow:

Preferred Capital Stock Unissued

19—						19—					
Jan.	2	Authorized		50,000	00	Jan.	2	Cash		30,000	00

Preferred Capital Stock Authorized

					19— Jan.	2	Common		50,000	00

Common Capital Stock Unissued

19— Jan.	2	Authorized		50,000	00	19— Jan.	2	Cash	30,000	00

Common Capital Stock Authorized

					19— Jan.	2	Unissued		50,000	00

The Balance Sheet of the Atlas Trading Company follows:

ATLAS TRADING COMPANY
Balance Sheet, January 2, 19—

Assets		*Proprietorship*		
Cash	$60,000.00	Preferred Capital Stock:		
		Authorized Issue.....	$50,000	
		Less Unissued.....	20,000	
		Issued and outstanding.....		$30,000.00
		Common Capital Stock:		
		Authorized Issue.....	50,000	
		Less Unissued.....	20,000	
		Issued and outstanding.....		30,000.00
	$60,000.00			$60,000.00

Comparison of the two methods of opening corporate books.—A comparison of the Balance Sheets will disclose the fact that by the one method of opening corporate books, it is possible, from the accounts in the ledger, to show on the Balance Sheet only the amount of capital stock issued and outstanding; whereas, by the other method, it is possible to show both the amount of capital stock authorized and the amount of capital stock issued and outstanding. The second method is preferable, since it permits of the preparation, from accounts kept in the ledger, of a Balance Sheet which will show particulars regarding capital stock issues. It is for that reason that this method is preferred by accountants.

These illustrations of the two methods of opening corporate books are not intended to be indicative of the entries usually made in opening corporate books. Rather, they are intended merely to emphasize, in so far as capital stock accounts are concerned, the following fact: that, by the one method, only one capital stock account is kept in the ledger for each class of stock; whereas, by the other method, two capital stock accounts are kept.

Complete opening entries for a corporation.—Upon the formation of a corporation, it is customary for the incorporators, in order to satisfy a legal requirement, to subscribe to capital stock and at a later date to pay for their subscriptions. Stock certificates are then issued to the subscribers. A complete record of the incidents leading up to the issuance of stock would, therefore, require that these facts be recorded on the books.

Thus, four entries, exclusive of the customary pro-forma entry, are usually required to open a set of corporate books. These may be described as follows:

1. The entry recording the authorized issue of capital stock.
2. The entry recording capital stock subscriptions.
3. The entry recording receipt of payments for capital stock subscriptions.
4. The entry recording the issuance of capital stock to subscribers who have paid in full for their subscriptions.

Complete opening entries for a corporation illustrated.—For the purpose of illustrating the complete opening entries made in the case of a corporation, the following is reproduced:

January 2, 19—

1. The American Manufacturing Company, a corporation, was this day duly organized under the laws of the State of New York with an authorized capital stock of 2000 shares, divided into 1000 shares of preferred capital stock, par value of shares $100 each, and 1000 shares of common capital stock, per value of shares $100 each.
2. The four incorporators, A. Arnold, B. Burton, C. Clark, and D. Davis, each subscribed to 100 shares of the preferred capital stock at par.

3. Three incorporators, A. Arnold, B. Burton, and C. Clark, each paid $10,000 cash for their stock subscriptions.
4. Preferred capital stock certificates were issued to the three subscribers as follows:

Certificate No. 1, A. Arnold, 100 shares
Certificate No. 2, B. Burton, 100 shares
Certificate No. 3, C. Clark, 100 shares

The entries to be illustrated are to be regarded as type entries. Here it is shown that, after the organization of the company has been recorded and subscriptions to capital stock have been placed upon the books, payment in cash is made by several subscribers. Those subscribers who pay in full are entitled to receive their stock certificates. These are, accordingly, issued to them. Subscribers who have made no payment on their subscriptions, or who have paid only a part of their subscriptions, cannot receive stock certificates at this time.

It will be shown in a later illustration that stock may be paid for by turning over to the corporation other property than cash. This is the case when a corporation is organized to take over the business of a concern already in existence, such as a partnership. Frequently, this is done merely for the purpose of effecting a change in the legal type of the organization. In such a case, the payment entry would include debits to several asset accounts (including Cash, if that asset were turned over to the corporation) and credits to liability accounts for the liabilities assumed by the corporation. No new principle, however, is involved.

It is important that the student master the type entries for the foregoing problem in order that he shall be able to apply basic principles to whatever situation may arise.

A complete record leading up to the issuance of stock to the subscribers would require that entries be made to record the authorized issue of stock, the amount of capital stock subscribed for, the payments received on stock subscriptions and, finally, the issuance of capital stock to the subscribers.

These entries are here expressed in journal form, as follows:

Journal, January 2, 19—

The American Manufacturing Company was this day duly organized under the laws of the State of New York with an authorized issue of $200,000 of capital stock, divided into 1000 shares of preferred capital stock of a par value of $100 each, and 1000 shares of common capital stock of a par value of $100 each.				
Preferred Capital Stock Unissued	100,000	00		
Common Capital Stock Unissued	100,000	00		
Preferred Capital Stock Authorized			100,000	00
Common Capital Stock Authorized			100,000	00
To record the authorized issue of 1000 shares preferred capital stock and 1000 shares common capital stock, each share of a par value of $100.				
—2—				
Subscribers to Preferred Capital Stock	40,000	00		
Subscriptions to Preferred Capital Stock			40,000	00
To record subscriptions for preferred capital stock received from the following:				
A. Arnold, 100 shares				
B. Burton, 100 shares				
C. Clark, 100 shares				
D. Davis, 100 shares				
—2—				
Cash	30,000	00		
Subscribers to Preferred Capital Stock			30,000	00
To record receipt of cash from the following subscribers in full payment of their subscriptions to preferred capital stock:				
A. Arnold, $10,000				
B. Burton, $10,000				
C. Clark, $10,000				
—2—				
Subscriptions to Preferred Capital Stock	30,000	00		
Preferred Capital Stock Unissued			30,000	00
To record the issuance of preferred capital stock certificates to subscribers as follows:				
Certificate #1, A. Arnold, 100 shares				
Certificate #2, B. Burton, 100 shares				
Certificate #3, C. Clark, 100 shares				

The ledger accounts follow:

Preferred Capital Stock Unissued

19— Jan.	2	Authorized		100,000	00	19— Jan.	2	Subscriptions		30,000	00

Debit:

With the par value of capital stock authorized by the charter.

Credit:

With the par value of the stock issued.

The balance of this account represents the amount of stock available for sale. In the capital section of the Balance Sheet, it should be deducted from the authorized amount.

Preferred Capital Stock Authorized

						19— Jan.	2	Unissued		100,000	00

Debit:

No debit entries should be made in this account unless the authorized amount is legally decreased by a change in the charter.

Credit:

With the par value of capital stock authorized by the charter.

The balance of this account remains unchanged. No further entries are made in the account either on the debit side or on the credit side, unless the charter is changed, authorizing a different amount to be issued. The balance is shown in the capital section of the Balance Sheet.

Common Capital Stock Unissued

19— Jan.	2	Authorized		100,000	00						

Debit:

With the par value of capital stock authorized by the charter.

With the par value of capital stock canceled.

Credit:

With the par value of capital stock issued.

The balance of this account represents the amount of stock available for sale. In the capital section of the Balance Sheet, it should be deducted from the authorized amount.

Common Capital Stock Authorized

						19— Jan.	2	Unissued		100,000	00

Debit:

No debit entries are made in this account unless the authorized amount is legally decreased by a change in the charter.

Credit:

With the par value of capital stock authorized by charter.

The balance of this account remains unchanged. No further entries are made in the account either on the debit side or on the credit side, unless the charter is changed, authorizing a different amount to be issued. The balance is shown in the capital section of the Balance Sheet.

Subscribers to Preferred Capital Stock

19— Jan.	2	Subscriptions		40,000	00	19— Jan.	2	Cash		30,000	00

Debit:

With the amount owing by subscribers for capital stock subscriptions.

Credit:

With the amount paid by the subscribers on account of their subscriptions to capital stock.

The balance of this account, if any, should be a debit. It represents the unpaid balance of subscribers on stock subscriptions and is shown on the asset side of the Balance Sheet.

Subscriptions to Preferred Capital Stock

19— Jan.	2	Unissued		30,000	00	19— Jan.	2	Subscribers		40,000	00

Debit:

With the par value of capital stock issued to subscribers.

Credit:

With the par value of stock subscriptions received.

The balance of this account, if any, should be a credit. It represents the amount of capital stock to be issued to subscribers when payment has been received in full. On the Balance Sheet it is shown in the capital section as an addition to preferred capital stock outstanding.

The following Cash account requires no explanation and is included here merely to complete the postings of the journal entries:

Cash

19—																	
Jan.	2	Subscribers		30,000	00												

A Trial Balance of the ledger follows:

AMERICAN MANUFACTURING COMPANY
Trial Balance, January 2, 19—

		Preferred Capital Stock Unissued	$	70,000	00						
		Preferred Capital Stock Authorized				$	100,000	00			
		Common Capital Stock Unissued		100,000	00						
		Common Capital Stock Authorized					100,000	00			
		Subscribers to Preferred Capital Stock		10,000	00						
		Subscriptions to Preferred Capital Stock					10,000	00			
		Cash		30,000	00						
			$	210,000	00	$	210,000	00			

A Balance Sheet prepared from the ledger would be as follows:

AMERICAN MANUFACTURING COMPANY
Balance Sheet, January 2, 19—

Assets		*Proprietorship*		
Cash	$30,000.00	Preferred Capital Stock:		
Due from Subscribers	10,000.00	Authorized Issue	$100,000	
		Less Unissued	70,000	
		Issued and Outstanding		$30,000.00
		Subscribed for but Not Issued		10,000.00
		Total Preferred Stock		40,000.00
		Common Capital Stock:		
		Authorized Issue	100,000	
		Less Unissued	100,000	
		Issued and Outstanding, None		
	$40,000.00			$40,000.00

Opening entry for no-par value stock.—No-par value stock, it will be remembered, is not given any definite share value but, instead, has printed on the face of the certificate of stock the phrase "No par value." Since the authorized amount of no-par value stock is not stated in the charter, and since the total authorized amount cannot be determined, it follows that the method of opening corporate books, whereby the authorized amount is recorded on the books, cannot be employed in the case of no-par value stock. Otherwise, in opening a set of books for a corporation whose authorized issue consists wholly of no-par value stock, the procedure is the same, that is, either one of the two methods already illustrated may be employed.

Opening entries for no-par value stock illustrated.—For the purpose of illustration, the following is submitted:

The Brown Company, Incorporated, was duly organized on July 1, 19— under the laws of the State of Delaware, with an authorized issue of 50,000 shares of no-par value common capital stock and 20,000 shares of no-par value preferred capital stock.

Each of three incorporators subscribed to 5000 shares of common capital stock, agreeing to pay $25,000 cash.

The incorporators each paid $25,000 cash and stock certificates for 5000 shares each were issued to them.

Method 1.—This illustrates the method by which no entry is made until capital stock is actually issued. The pro-forma entry and cash receipts entry, expressed here in journal form, follow:

Journal, July 1, 19—

	The Brown Company, Inc., was duly organized under the laws of the State of Delaware with an authorized issue of 50,000 shares of no par value common capital stock and 20,000 shares of no par value preferred capital stock.				
	Cash	75,000	00		
	Common Capital Stock			75,000	00
	To record the issuance of common stock certificates numbered 1, 2, and 3, for 5000 shares to each of three subscribers.				

Method 2.—This illustrates the method by which full particulars regarding incorporation are recorded on the books in so far as this is possible in the case of no-par value stock. All entries are expressed here in journal form as a matter of convenience, as follows:

Journal, July 1, 19—

	The Brown Company, Inc., was duly organized under the laws of the State of Delaware, with an authorized issue of 50,000 shares of no-par value common capital stock and 20,000 shares of no-par value preferred capital stock.			
	Subscribers to Common Capital Stock.....	75,000 00		
	Subscriptions to Common Capital Stock...		75,000 00	
	To record subscriptions to 5000 shares of common capital stock by each of the three incorporators.			
	—1—			
	Cash.....	75,000 00		
	Subscribers to Common Capital Stock....		75,000 00	
	To record receipt of $25,000 cash from each of the three incorporators, in payment of their subscriptions to common capital stock.			
	—1—			
	Subscriptions to Common Capital Stock.....	75,000 00		
	Common Capital Stock.....		75,000 00	
	To record the issuance of common stock certificates numbered 1, 2, and 3, for 5000 shares to each of the three subscribers.			

A Balance Sheet prepared from accounts kept in the ledger follows:

BROWN COMPANY, INCORPORATED

Balance Sheet, July 1, 19—

Assets		*Proprietorship*	
Cash.....	$75,000.00	Capital Stock:	
		Common, No Par Value	
		Issued, 15,000 Shares	$75,000.00
	$75,000.00		$75,000.00

Thus it will be seen that, in opening the books of a corporation whose authorized issue consists wholly of no-par value capital stock, the procedure is the same as in the opening entries for par value stock, except that the first entry record-

ing the authorized issue is omitted, since the amount of the total authorized issue of any one class of stock cannot be determined in the case of no-par value stock.

A Balance Sheet may be prepared showing full particulars of the capital stock issues of no par value. Such a Balance Sheet, however, could not be prepared from accounts kept in the ledger alone, since the ledger accounts show only the amount and, sometimes, the number of shares of capital stock of each class issued and outstanding, but not the number of shares of each class authorized to be issued by the charter. It is obvious, therefore, that in order to prepare a Balance Sheet showing full particulars, it is necessary to refer either to the charter or to the pro-forma entry in the journal, to find the number of shares in the authorized issue of stock.

An illustration of such a Balance Sheet follows:

BROWN COMPANY, INCORPORATED
Balance Sheet, July 1, 19—

Assets		*Proprietorship*	
Cash	$75,000.00	Capital Stock:	
		Preferred, no Par Value	
		Authorized, 20,000 Shares	
		Issued, None	
		Common, no Par Value	
		Authorized, 50,000 Shares	
		Issued, 15,000 Shares	$75,000.00
	$75,000.00		$75,000.00

Sometimes the certificate of incorporation provides for an authorized issue of one class of stock at a par value and another at no par value, in which case a combination of the two methods may be employed in opening the books of a corporation. This procedure will now be illustrated, in recording on the books of a corporation the change from the partnership to the corporate type of organization.

Recording a change from partnership to corporation on the corporation's books.—Many corporations are the outgrowth of a business previously conducted by a sole proprietor or operated as a partnership. Thus, an individual may begin business in a modest way as a sole proprietor; but later the growth of the business may require additional capital. If the

individual's financial resources are limited, he very probably will look to someone else to furnish the additional capital required. In all probability, this will result in the formation of a partnership. Again the business, under the partnership type of organization, may prosper and grow, and may require additional capital. Since capital can be more easily raised under the corporate type of organization, it frequently happens that a legal change in organization is effected by converting a partnership into a corporation.

Because changes from a partnership to a corporation are common, every bookkeeper should be familiar with the method of recording such changes on both the books of the corporation and the partnership.

Illustrating entries made on the books of the corporation. For the purpose of illustration, the following case may be considered:

Three partners, Adams, Brown, and Clark, who share profits equally, and who operate a business under the firm name of Adams & Brown, decide to change from the partnership to the corporate type of business organization. Accordingly, the Adams Company, Incorporated, is organized as of January 1, 19—, under the laws of the State of Massachusetts with an authorized issue of $100,000 preferred capital stock of a par value of $100 per share, and 5000 shares of common capital stock of no par value. It takes over the business of the firm of Adams & Brown, whose balance sheet at January 1, 19—, is as follows:

ADAMS & BROWN
Balance Sheet, January 1, 19—

Assets		
Cash		$ 18,000
Imprest Cash Fund		200
Notes Receivable		20,000
Accounts Receivable	$60,000	
Less—Reserve for Bad Debts	1,400	58,600
Merchandise Inventory		40,000
Furniture & Fixtures	2,500	
Less—Reserve for Depreciation	500	2,000
Auto Truck	2,400	
Less—Reserve for Depreciation	1,200	1,200
		$140,000

Liabilities		
Notes Payable		$ 12,000
Accounts Payable		38,000
Total		50,000
Proprietorship		
A. Adams, Capital	$30,000	
B. Brown, Capital	30,000	
C. Clark, Capital	30,000	
Total		90,000
		$140,000

It is agreed that the business of the firm is to be taken over by the corporation at a value of $120,000, payable $90,000 in preferred stock, and 3000 shares of common capital stock of no par value.

It should be noted that a goodwill value of $30,000 is placed upon the business of the firm.

The journal entries follow:

January 1, 19—

	The Adams Company, Incorporated, was this day organized under the laws of the State of Massachusetts with an authorized issue of $100,000 preferred stock of a par value of $100 per share and 5,000 shares of no par value common stock.			
	Preferred Capital Stock Unissued	100,000 00		
	Preferred Capital Stock Authorized		100,000 00	
	To record the authorized issue of preferred stock.			
	—1—			
	Cash	18,000 00		
	Imprest Cash Fund	200 00		
	Notes Receivable	20,000 00		
	Accounts Receivable	60,000 00		
	Merchandise Inventory	40,000 00		
	Furniture and Fixtures	2,500 00		
	Auto Trucks	2,400 00		
	Goodwill	30,000 00		
	Notes Payable		12,000 00	
	Accounts Payable		38,000 00	
	Reserve for Bad Debts		1,400 00	
	Reserve for Depreciation of Furniture and Fixtures		500 00	
	Reserve for Depreciation of Auto Trucks		1,200 00	
	Adams & Brown		120,000 00	
	To record the amount owing to the firm of Adams & Brown for the assets (including goodwill), the liabilities, and the reserves taken over per bill of sale.			
	—1—			
	Adams & Brown	120,000 00		
	Preferred Capital Stock Unissued		90,000 00	
	Common Capital Stock		30,000 00	
	To record payment to Adams and Brown as follows:			
	900 Shares of Preferred Stock of $100 Par Value.			
	3000 Shares of Common Stock of No Par Value.			

The opening Balance Sheet of the corporation follows:

ADAMS COMPANY, INCORPORATED
Balance Sheet, January 1, 19—

Assets			*Liabilities*		
Cash		$ 18,000	Notes Payable		$ 12,000
Imprest Cash Fund		200	Accounts Payable		38,000
Notes Receivable		20,000	Total		50,000
Accounts Receivable	$60,000		*Proprietorship*		
Less—Reserve for Bad Debts	1,400	58,600	Preferred Stock:		
Merchandise Inventory		40,000	Authorized Issue	$100,000	
Furniture & Fixtures	2,500		Less Unissued	10,000	
Less—Reserve for Depreciation	500	2,000	Issued and Outstanding		90,000
Auto Trucks	2,400		Common Stock—No Par Value:		
Less—Reserve for Depreciation	1,200	1,200	Authorized Issue 5,000 Shares		
Goodwill		30,000	Issued and Outstanding 3,000 Shares		30,000
		$170,000	Total Proprietorship		120,000
					$170,000

Recording a change from partnership to corporation on the partnership books.—The entries, expressed in journal form, on the books of the partnership follow:

January 1, 19—

	Goodwill	30,000 00		
	A. Adams, Capital		10,000	00
	B. Brown, Capital		10,000	00
	C. Clark, Capital		10,000	00
	To record the value of the goodwill on the books preparatory to the transfer of the business to the corporation, and to credit each partner for his share of the goodwill in the profit- and-loss-sharing ratio.			
	—1—			
	Adams Company, Incorporated	173,100 00		
	Cash		18,000	00
	Imprest Cash Fund		200	00
	Notes Receivable		20,000	00
	Accounts Receivable		60,000	00
	Merchandise Inventory		40,000	00
	Furniture and Fixtures		2,500	00
	Auto Trucks		2,400	00
	Goodwill		30,000	00
	To record the transfer of the assets to the corporation and to close the asset accounts.			

January 1, 19—

		Notes Payable		12,000	00		
		Accounts Payable		38,000	00		
		Reserve for Bad Debts		1,400	00		
		Reserve for Depreciation of Furn. and Fixtures		500	00		
		Reserve for Depreciation of Auto Trucks		1,200	00		
		Adams Company, Incorporated				53,100	00
		To record the transfer of the liabilities assumed by the corporation and to close the liability and reserve accounts					
		—1—					
		Adams Company, Inc., Preferred Stock		90,000	00		
		Adams Company, Inc., Common Stock		30,000	00		
		Adams Company, Incorporated				120,000	00
		To record receipt of 900 shares of $100 par value preferred stock, and 5,000 shares of no-par value common stock, for the assets and liabilities of the firm.					
		—1—					
		A. Adams, Capital		40,000	00		
		B. Brown, Capital		40,000	00		
		C. Clark, Capital		40,000	00		
		Adams Co., Inc., Preferred Stock				90,000	00
		Adams Co., Inc., Common Stock				30,000	00
		To record the distribution of Adams Co., Inc., preferred and common stock to the partners, and to close the Capital accounts of the partners					

The title of Capital Stock accounts.—In the case where only one class of stock is authorized to be issued by the charter, and where only one capital stock account is kept in the general ledger, the title of the account is usually "Capital Stock," or "Capital Stock Issued." No qualification of the title is necessary in this case, since all stock issued is of the same class.

Where, however, more than one class of capital stock is authorized to be issued by the charter, and where only one capital account is kept in the general ledger for each class of stock, the titles of the capital stock accounts should be descriptive of the classes of stock. The following are some examples of titles of capital stock accounts which are commonly used and which are descriptive of classes of stock that may be authorized to be issued by the charter:

Five Per Cent Cumulative Preferred Capital Stock
Five Per Cent Participating Preferred Capital Stock
Class A, Common Capital Stock
Class B, Common Capital Stock
No-par Preferred Capital Stock
No-par Common Capital Stock

If two capital stock accounts are kept in the general ledger for each class of capital stock authorized to be issued by the charter, the account title is further qualified by adding the words "Unissued" or "Authorized." To illustrate:

Five Per Cent Cumulative Preferred Capital Stock Unissued
Five Per Cent Cumulative Preferred Capital Stock Authorized
Class A, Common Capital Stock Unissued
Class A, Common Capital Stock Authorized

The titles of capital stock accounts may be comparatively brief, as is the case in smaller corporations, which do not, as a rule, issue different types of any one of the two classes of stock. Therefore, titles such as the following are commonly found on the books of smaller corporations:

Preferred Capital Stock
Common Capital Stock

where only one account is kept in the ledger for each class; and

Preferred Capital Stock Unissued
Preferred Capital Stock Authorized
Common Capital Stock Unissued
Preferred Capital Stock Authorized

where two accounts are kept in the ledger for each class.

Preferred Capital Stock account.—This is a controlling account for the preferred capital stock ledger, in which an individual account is kept with each preferred stockholder. In so far as its use as a controlling account is concerned, this account (which should always show a credit balance, since the balance would represent the total amount of capital stock outstanding) may be compared with the Accounts Payable account kept in the general ledger.

The Accounts Payable account in the general ledger, as has already been explained, is the controlling account for the accounts payable ledger, in which the individual creditors' ac-

counts are kept. Similarly, the Preferred Capital Stock account in the general ledger is the controlling account for the preferred stock ledger, in which an individual account is kept with each preferred stockholder.

Subsidiary books and records of a corporation will be discussed in a later chapter.

Common Capital Stock account.—This account also is a controlling account. It is the controlling account for the common stock ledger, in which an individual account is kept with each common stockholder.

Preferred Capital Stock Authorized account.—This account is used only where two accounts are kept in the general ledger for this class of stock. The purpose of this account is to make possible the preparation of a Balance Sheet which, from accounts kept in the ledger, will show the amount of preferred capital stock authorized to be issued by the charter.

When opening a set of books, the bookkeeper credits this account with the par value of the amount of preferred stock authorized to be issued by the charter. Thereafter no further entries are made in this account unless the amount authorized to be issued by the charter is legally changed. An increase in the authorized amount would be recorded by a credit entry, and a decrease by a debit entry, in the account.

The complementary account, that is, the account which is debited at the time the Preferred Capital Stock Authorized account is credited, is the Preferred Capital Stock Unissued account.

Together these two accounts constitute the controlling account for the preferred stock ledger.

Preferred Capital Stock Unissued account.—The use of this account is made necessary by the credit entry made in the Preferred Capital Stock Authorized account, where two accounts are kept in the ledger for this class of stock.

The account is debited with the par value of the amount of stock authorized; it is credited with the par value of the amount of stock issued. The balance in the account represents, as the title of the account implies, the unissued amount of authorized stock.

On the Balance Sheet, the balance of the account is deducted from the balance of the authorized account; the resulting balance represents the amount of preferred stock issued, which should be in agreement with the total number of shares of preferred capital stock outstanding, as shown by the preferred stock ledger.

Thus, it will be seen that the Preferred Capital Stock Authorized and the Preferred Capital Stock Unissued accounts together constitute the controlling account for the preferred stock ledger.

Common Capital Stock Authorized account.—The purpose, the functions, and the treatment of this account on the Balance Sheet are the same as those explained under preferred capital stock authorized.

Common Capital Stock Unissued account.—The purpose, the functions, and the treatment of this account on the Balance Sheet are the same as those explained under preferred capital stock unissued, except that these two accounts, namely, Common Capital Stock Authorized and Common Capital Stock Unissued, together constitute the controlling account for the common stock ledger, in which an individual account is kept for each common stockholder.

Subscribers to Capital Stock account.—A corporation may agree to sell capital stock on the installment plan. In a large corporation, the subscribers to such stock would be quite numerous. As in the case of customers' accounts, it is customary to keep the individual accounts with subscribers in a subsidiary ledger and to keep a controlling account with subscribers in the general ledger.

A separate controlling account is kept in the general ledger with subscribers to each class of stock. The account titles should designate the class of stock, for example:

Subscribers to Preferred Capital Stock
Subscribers to Common Capital Stock

These accounts are debited with the total amount of stock subscribed for, and are credited with the total cash receipts on account of the subscription contracts. The balances in these

accounts represent the amounts owing by subscribers on both classes of stock, and should be in agreement with the respective subsidiary records.

Subscriptions to Capital Stock account.—This account is complementary to the Subscribers to Capital Stock account. It is credited with the total amount of capital stock subscriptions at the same time that the Subscribers to Capital Stock account is debited. When capital stock subscriptions are paid in full, capital stock certificates are issued to the subscribers, and the Subscriptions to Capital Stock account is then debited and the Unissued account is credited with the amount of stock issued.

As in the case of the Subscribers to Capital Stock account, a separate account is kept in the general ledger for each class of stock subscribed for, as for example:

Subscriptions to Preferred Capital Stock
Subscriptions to Common Capital Stock

Recording routine transactions of a corporation.—The method and procedure of recording the routine transactions of a corporation are the same as those employed in the case of a sole proprietorship or a partnership, except, of course, as to transactions peculiar to a corporation.

Determining the net profit of a corporation.—Likewise, the net profit of a corporation is determined in the same manner as is the net profit of a sole proprietorship or a partnership; that is, at the close of the accounting period the expense and income accounts are closed into the Profit and Loss account and the resulting balance is either the net profit or the loss.

From this point on, however, the method of procedure in the three types of organization differs. In the case of the sole proprietorship, the net profit is closed into the proprietor's account; in the case of a partnership, the net profit is distributed as agreed upon by the partners, depending upon whether or not interest is allowed on partners' capital, by crediting each partner with his respective share of interest and profit; in the case of a corporation, the net profit is transferred, as has al-

ready been explained, to a collective profit and loss account called Surplus.

The Surplus and other accounts peculiar to a corporation will be discussed in the next chapter.

Review Questions

1. Explain, in a general way, two methods of opening corporation books.

2. What is the purpose of the account, Capital Stock Unissued?

3. What relation does the Capital Stock Unissued account bear to the Capital Stock Authorized account? Name other accounts that have a similar relationship in accounting.

4. Name, in order, four type entries to be made on the books of a corporation, from the time the charter is received until stock is issued to shareholders.

5. Why is the entry—Capital Stock Unissued to Capital Authorized—not made in the case of no-par value stock?

6. Give three reasons why partners might decide to incorporate their business.

7. If a business which was formerly operated as a partnership is incorporated, need new books be opened?

8. If new books are opened, should the partnership books be closed? Why?

Exercises

1. The American Machinery Company is incorporated on February 1, 19—, with an authorized capital stock of $150,000. Of the three incorporators, George Larson, Henry Muller, and William Fields, each takes $50,000 worth of stock and pays cash.

Show the entry (journal form).

2. The Excelsior Corporation is incorporated on July 10, 19—, with an authorized capital stock of $200,000; par value of shares, $100 each. Of the three incorporators, H. P. Ward, R. J. Wood, and E. C. Male, each subscribes for 400 shares of stock and pays cash. The unissued stock is to be offered for sale as additional capital is needed.

Show the necessary entries. (The unissued stock is to be shown on the books.)

3. The Consumers' Supply Company is incorporated on September 1, 19—, with an authorized capital stock of $250,000, divided as follows: 1000 shares preferred stock and 1500 shares common stock, par value of all shares, $100 each. The following persons have subscribed for all the preferred stock and have paid 10% of their subscriptions: James Watkins, 400 shares; Robert Chase, 300 shares; Henry Wilson, 300 shares.

On September 10, the subscribers to the preferred stock pay the balance of their subscriptions and receive stock certificates.

Subscriptions to common stock are received on September 20 from the following persons, who pay 10% of their subscriptions in cash: John Atkins, 100 shares; F. C. Beemer, 50 shares; E. J. Smith, 40 shares; R. C. Lane, 20 shares.

(a) Show all entries (journal form) to record the foregoing facts. (Unissued stock is to be shown on the books.)
(b) Show the Balance Sheet of the corporation at September 20, after all facts have been recorded.

4. The Riggs Realty Company was incorporated on April 15, 19—, with an authorized issue of 5000 shares of no-par value preferred stock and 10,000 shares of no-par value common stock. Of three incorporators, H. King, R. Fallon, and P. Quinn, each has subscribed for 1000 shares of the preferred stock at $50 per share and has paid one-half of his subscription in cash.

Subscriptions were received on April 25 for 2500 shares of common stock at $10 per share. These subscribers, in each case, paid 20% of their subscriptions in cash.

On April 28, the subscribers to preferred stock paid the balance due on their subscriptions and received stock certificates.

(a) Show entries (journal form) to give expression to the above facts.
(b) Show the Balance Sheet at April 28.

5. On January 2, 19— H. Williams and R. Scott, equal partners in the firm of Williams and Scott, have the following assets and liabilities: *assets:* Real Estate, $20,000; Merchandise Inventory, $10,000; Furniture and Fixtures, $400; Cash, $1,100; Accounts Receivable, $7.000; Notes Receivable, $4,000; *liabilities:* Notes Payable, $4,500; Accounts Payable, $6,000.

A corporation known as the William & Scott Company, Incorporated, is formed with an authorized capital stock of $100,000; par value of shares, $100 each. The corporation takes over the business of the partnership, giving each partner 200 shares of stock in exchange for his interest. On January 20, 400 shares of stock were sold for cash.

(a) Show the entries on the books of the corporation (new books are opened).

(b) Show entries to close the books of the partnership.

6. Assume that, in question 5, the corporation continued the use of the old books. Show the entries on January 2.

7. Charles Johnson and Henry Miller have been conducting a wholesale dry goods business as equal partners. They have decided to incorporate and to secure additional capital by the sale of stock. The necessary legal steps have been taken and a charter has been granted.

The capital stock of the new firm, which is to be known as the Central Wholesale Dry Goods Company, Incorporated, is $60,000, divided into 600 shares of the par value of $100 each. Each partner is to receive $25,000 of the capital stock for his share of the old business.

The condition of the business on Dec. 31, 19—, is shown by the following schedule of assets and liabilities:

Assets

Cash on Hand	$ 6,000.00
Merchandise per Inventory	22,500.00
Accounts Receivable	5,298.22
Notes Receivable	2,810.00
Furniture	1,800.00
Real Estate	7,500.00
Delivery Equipment	800.00
Expense (Unused Coal, etc.)	239.00
Insurance (Unearned Premium)	225.00

Liabilities

Accounts Payable	$ 1,792.50
Notes Payable	2,400.00

(a) Make journal entries necessary to close the old books on Dec. 31, 19—, assuming that the partners' accounts stand credited with their present worth.

(b) Make journal entries necessary to open the new set of books on Jan. 2, 19—, assuming that no additional new stock has been sold. The entire capital stock is to appear on the books.

(c) On Jan. 10, S. C. Anderson subscribed for 50 shares of the unissued stock at par. On Jan. 15, Anderson paid for his stock in cash and received his stock certificate. Make journal entries.

8. A. J. Andrews has conducted a retail business for three years. His profits for the three years have been $7,000, $8,000, and $10,000 respectively, before charging any salary for his own services. In order to obtain the capital needed to purchase the new fixtures necessary in a new store which he proposes to lease, and also to increase the stock of merchandise, he decides to incorporate on April 1, 19—, for $60,000, and to sell part of the capital stock.

C. F. Martin agrees to purchase $20,000 of the stock at par and to pay for it immediately. It is also agreed that in the new corporation Andrews is to be allowed credit for goodwill equal to the sum of his profits for the past three years, after deducting an annual salary of $4,000.

Draft the journal entries necessary to adapt Andrews' books for use as the books of the corporation, and prepare a Balance Sheet showing the conditions as completed.

Andrews presents the following list of assets and liabilities, which Martin accepts as correct:

Assets

Furniture and fixtures: book value, $6,000; worth $4,000
Merchandise; $20,000
Accounts receivable: book value, $6,500; collectible, $6,000
Cash, $400

Liabilities

Trade creditors, $8,900
Bank loans, $1,500

Chapter XXII

CORPORATIONS—Continued

Other Corporate Accounts

Surplus accounts.—As has already been explained and illustrated, individual Capital accounts are kept in the general ledger, in the case of the sole proprietorship and the partnership types of business organization, and profits are credited to the respective Capital accounts.

Ownership of shares in a corporation is represented, collectively, on the general ledger by the various Capital Stock accounts. Thus, it will be seen that the net profit, in the case of a corporation, cannot be credited to the individual stockholders' accounts, since there are usually various classes of stock with varying interest in the profit. The profits of a corporation are, therefore, carried in a collective account. This account, which is known as the Surplus account, is debited or credited at the close of each accounting period with the loss or gain.

The final closing entry for a corporation, if the operations result in a profit, is as follows:

Profit and Loss
Surplus

The Surplus account represents the undistributed profits of a corporation.

Dividends payable.—Profits distributed to stockholders of a corporation are known as *dividends.* In most states, the payment of dividends by a corporation can be made only as the result of a formal declaration of dividends by the board of directors. Moreover, the power of the board of directors to declare dividends is usually limited by law to the amount of the *earned* surplus of a corporation.

Thus, it will be seen that the amount of dividends which may be declared by the board of directors depends upon the undistributed earnings of the corporation, as reflected by the surplus account. Whenever a dividend is declared by the board of directors, the balance of surplus available for distribution is thereby reduced. Accordingly, an entry is made as follows:

Surplus
    Dividends Payable

Dividends, formally declared and published by the board of directors, become a liability of the corporation. This liability is recorded by means of the Dividend Payable account.

Dividends, when declared, may be made payable either in cash or capital stock of the corporation. If they are paid in cash, the entry recording the cash payment would be as follows:

Dividends Payable
    Cash

If payment is made in capital stock of the corporation, the entry would be:

Dividends Payable
    Capital Stock or Capital Stock Unissued

Thus, it will be seen that the function of the Dividends Payable account is to record the liability created by the corporation to its stockholders when a dividend is declared by the board of directors.

Surplus reserves.—Although, as has already been explained, the net earnings of a corporation are transferred to the Surplus account, the balance in this account is not always made available for dividends.

Sometimes provision is made by the board of directors for contingencies which may arise in the conduct of the business. Such provision is made by setting aside part of the surplus. Surplus thus set aside becomes a reserve. Thus, whenever part of the surplus is set aside by the board of directors for some specific purpose, an entry is made by which an appropriate reserve account is credited. The entry setting aside part

of the surplus as a reserve for contingencies would be as follows:

Surplus
Reserve for Contingencies

Reserves created by a debit entry to the Surplus account are known as *surplus reserves.* Such reserves differ from valuation reserves, such as depreciation and bad debts reserves, in that the former are always shown in the capital section of the Balance Sheet, whereas the valuation reserves are usually shown as deductions on the asset side of the Balance Sheet.

Surplus Account

Debit:	Credit:
With amount of net loss for each fiscal period. With amount of dividends declared. With amount of surplus reserves created.	With amount of net profit for each fiscal period.

The balance of this account, if a credit, represents surplus available for dividends, and is shown under proprietorship on the liability side of the Balance Sheet.

Dividends Payable

Debit:	Credit:
With amount of dividends paid.	With amount of dividends declared.

The balance of this account is a credit and is shown on the liability side of the Balance Sheet, since it represents the amount owing to stockholders for dividends.

Reserve for Contingencies

Debit:	Credit:
With amount of payments made.	With amount of reserves created.

The balance of this account is a credit and is shown under proprietorship on the liability side of the Balance Sheet.

Treasury stock.—Treasury stock should not be confused with unissued stock. Unissued stock is that part of authorized stock which has not been issued, whereas treasury stock is stock which has once been issued for value and which has found its way back into the treasury of the corporation, either by purchase or gift. Treasury stock, therefore, is reacquired stock.

Treasury stock has no voting rights, nor is it entitled to dividends. Unlike unissued stock, which in some states may not legally be sold below par, treasury stock may be sold at any price or may be given away as a bonus.

Purchased treasury stock.—Unless restricted by law, as is the case in some states, a corporation may reacquire some of its own stock by purchase. Treasury stock acquired by purchase may be recorded on the books at par or at cost.

Some accountants advocate the recording of such stock on the books at par as a practical matter; others adhere strictly to theory and hold that the value of treasury stock is measured by what was given in exchange for it and that it should, therefore, be recorded on the books at cost.

If, for example, a corporation purchases, at $90 per share, 1000 shares of its own common stock of a par value of $100, the entry, expressed here in journal form, recording the purchase at cost would be as follows:

	Common Treasury Stock	90,000 00		
	Cash		90,000	00
	To record the purchase of 1000 shares of common stock, par value $100, at $90 per share.			

The entry recording the same transaction at par value follows:

	Common Treasury Stock	100,000 00		
	Cash		90,000	00
	Premium and Discount on Treasury Stock		10,000	00
	To record the purchase of 1000 shares of common stock at 90.			

If any of the treasury stock is subsequently sold above or below par, the premium or discount is credited or debited to the Premium and Discount account. The balance in this account, after all treasury stock has been disposed of either by sale or cancellation, is closed into the Surplus account.

Treasury stock of no par value, if not recorded at cost, may be recorded on the books at the original sale price or, if that is not known, at book value.

Donated treasury stock.—Although treasury stock may be donated to a corporation by a stockholder or a group of stockholders for any purpose, it is frequently donated for the purpose of providing additional working capital.

If, for example, on January 1, 19—, a stockholder donates 100 shares of his holdings of preferred capital stock, of a par value of $100 per share, to the corporation for the purpose of providing additional working capital, the entry would be as follows:

Preferred Treasury Stock		10,000	00	
Reserve for Working Capital				10,000	00
To record the donation of 100 shares of preferred stock, par value $100 per share, the proceeds of which are to be used as working capital.				

Donated treasury stock may be recorded on the books at estimated value or at par. It is usually recorded at par, except in the case of no-par value stock. No-par treasury stock, when donated, may be recorded on the books at the original sale price, or at the average value if the original sales price is unknown.

If treasury stock is donated for general purposes, instead of a specific purpose, then an account other than a reserve account, such as Capital Surplus or Treasury Stock Donations, is usually credited.

The Treasury Stock account is credited with the par value of donated stock sold; and, if the latter is sold above or below par, the difference is either credited or debited to the account which was credited when the treasury stock was received. For

example, if on February 1, 19—, 500 of the 1000 shares of the preferred treasury stock were sold above par at a price of 105, that is, at $105 per share, the entry—expressed here in journal form—would be as follows:

Cash		5,250 00		
Preferred Treasury Stock			5,000	00
Reserve for Working Capital			250	00
To record the sale, at 105, of 500 shares of preferred treasury stock carried on the books at par.				

If on March 1, 19—, the remainder, 500 shares, was sold (below par) at a price of 90 per share, the entry, expressed here in journal form, would be as follows:

Cash		4,500 00		
Reserve for Working Capital		500 00		
Preferred Treasury Stock			5,000	00
To record the sale at 90 of 500 shares of preferred treasury stock carried on the books at par.				

The Preferred Treasury Stock and the Reserve for Working Capital accounts, after posting the last three entries, would appear in the ledger as follows:

Preferred Treasury Stock

19—					19—				
Jan.	1	1000 shares		10,000 00	Feb.	1	500 shares	5,000	00
					Mar.	1	500 shares	5,000	00

Debit:

When purchased:
With cost or par value of stock.
When donated:
With par value.

Credit:

When purchased stock is sold:
With cost or par value.
When donated stock is disposed of:
With par value.

The balance of this account, if any, should be a debit and represents the amount of treasury stock at par or cost. Treasury stock is usually shown as a deduction from the capital stock outstanding in the capital section of the Balance Sheet.

Reserve for Working Capital

19—						19—					
Mar.	1	500 shares		500	00	Jan.	1	1000 shares		10,000	00
						Feb.	1	500 shares		250	00

Debit:

With discount on sale of treasury stock.

Credit:

With par value of treasury stock donated.

With premium on sale of treasury stock.

The balance of this account, if any, should be a credit. After all the treasury stock has been disposed of, it represents the net amount donated for additional working capital.

Reserve for working capital, like the reserve for contingencies, is a surplus reserve and is shown as part of the surplus in the capital section of the Balance Sheet.

Premium and discount on capital stock.—Capital stock may be issued at a price above or below par, although the laws of some states forbid its sale at less than par. When it is sold at a premium, the account, Premium on Capital Stock, should be credited; when it is sold at a discount, the account, Discount on Capital Stock, should be debited. Discount on capital stock should be written off by charging the Surplus account as soon as a sufficient surplus has been created. Until that time, the amount should be treated as a deferred charge to expense and should be shown as such on the Balance Sheet. The premium on capital stock is, in effect, surplus, and should be shown as such in the capital section of the Balance Sheet. When it is written off, the Surplus account is credited.

Organization expenses.—The expenses incurred in organizing a corporation are numerous. There are, for example, legal expenses, promotion expenses, incorporation fees, accountants' fees, costs of printing stock certificates, and sundry other items of expense.

It is customary, therefore, to keep an account dealing with organization expense, in which are recorded all items of expense incurred in organizing the corporation.

Organization expense is not an operating expense in the same sense as are salaries, rent, light, and other expense items

of a going business; and for that reason the account is not closed out to the Profit and Loss account at the end of the accounting period. Instead, it is treated as an unconsumed expense item, since the expenses were incurred to cover the life of the corporation, and only a part of the amount is treated as consumed at the close of each accounting period. Usually an arbitrary amount, depending upon the profits, is written off each period. However, most accountants advocate writing off the organization expenses in as short a period of time as possible. The amount written off will be accounted for in the Profit and Loss account; the balance, if there be any, is shown as a deferred expense item on the Balance Sheet.

The entry to write off organization expenses follows:

Organization Expense-Written Off
    Organization Expense
  To record amount of organization expense written off.

Organization Expense

Debit:	Credit:
With expenses of organizing the corporation.	With amounts written off.

Bonds payable.—A common method of financing construction work, such as buildings, in the case of a corporation, is to issue bonds secured by a mortgage on the property. A bond is like a promissory note in that it is a written promise to pay money at some future definite time.

A bond differs, however, from a note in the following respects:

(1) As a rule, most notes mature within a comparatively short period of time, that is, within a year, whereas bonds are usually issued for a longer period of time—most of them for not less than three years.

(2) Bonds usually bear the corporation's seal. Notes, as a rule, do not.

(3) Bonds are usually, but not always, secured in some manner. Notes *may* be secured, but as a rule are not.

The security pledged, in the case of money borrowed on a bond issue for the construction of a building, is usually a mortgage on the property. A *mortgage* is a written instrument for the conveyance of real or personal property, by a debtor to a creditor, to insure the performance by the debtor of his promise to pay interest and principal. The bonds which have the first lien on property are said to be secured by a first mortgage; bonds which have a second lien on property are said to be secured by a second mortgage.

As in the case of a capital stock issue, so also in the case of a bond issue, the titles of the account should be descriptive of the bond issue; hence, titles such as

First Mortgage Bonds Payable
Second Mortgage Bonds Payable
General Mortgage Bonds Payable

are commonly used to describe the different issues of bonds.

Expressed here in journal form, the entry recording the sale of bonds on the books of the issuing company is as follows:

Cash
    Bonds Payable

Bonds Payable

Debit:	Credit:
With the par value of bonds canceled.	With the par value of bonds issued.

The balance of this account is a credit. It represents the amount of bonds issued and outstanding.

Bonds Payable is a liability account and is shown on the liability side of the Balance Sheet.

Discount on bonds.—Not all bonds are sold at par; if sold below par, the bonds are said to be sold "at a discount." The entry recording the sale of bonds at a discount follows:

Cash
Discount on Bonds
    Bonds Payable
  To record the sale of bonds
at a discount.

Discount on bonds is treated as a prepaid expense account, and is written off periodically over the life of the bonds. For example, if bonds having 20 years to run are sold at a discount of $1,000, then $\frac{1}{20}$ of $1,000, or $50 of the discount is written off each year by an entry such as follows:

Discount on Bonds Written Off
    Discount on Bonds
  To record the amount of discount on bonds written off.

Discount on Bonds Written off is an expense account. In closing the ledger, it is transferred to the Profit and Loss account.

Discount on Bonds

Debit:	Credit:
With discount allowed when bonds are issued.	With amount written off.

The balance of this account is a debit. It represents the unexpired portion of discount on bonds. It is shown on the asset side of the Balance Sheet as a deferred charge.

Premium on bonds.—Bonds are sometimes issued above par, in which case they are said to be issued "at a premium." The entry recording the issue of bonds at a premium follows:

Cash
    Bonds Payable
    Premium on Bonds.

Premium on bonds, like discount on bonds, is written off periodically over the life of the bonds. Thus, if bonds having 20 years to run are issued at a premium of $1000, then $\frac{1}{20}$ of $1000, or $50, of the premium would be written off each year by an entry such as follows:

Premium on Bonds
    Premium on Bonds Written Off
  To record the amount of premium on bonds written off.

Premium on Bonds Written Off is an income account and, in closing the ledger, is transferred to the Profit and Loss account.

Premium on Bonds

Debit:	Credit:
With the amount written off.	With the amount of premium received on the sale of bonds.

The balance of this account is a credit; it represents the unexpired portion of premium on bonds, and is shown on the liability side of the Balance Sheet as a deferred credit item.

Review Questions

1. What is the final closing entry on the books of a corporation, assuming that a profit has been made?

2. To what class of accounts does the Surplus account belong? In what section of the Balance Sheet should it appear?

3. How are surplus profits of a corporation distributed?

4. What entry is made upon the declaration of a dividend to stockholders? What entry when the dividend is paid in cash?

5. In what other way may dividends be paid?

6. What entry is made for a stock dividend paid by issuing common stock?

7. What is meant by a "surplus reserve"?

8. How does a true, or surplus, reserve differ from a valuation reserve?

9. Give a definition of treasury stock. How does it differ from unissued stock?

10. How may treasury stock be acquired by the corporation?

11. Give the entries on the books of a corporation if treasury stock is purchased for cash (a) at par value; (b) at a discount; (c) at a premium.

12. Give the entry that is made when treasury stock is donated to a corporation to provide additional working capital.

13. How is treasury stock usually shown on the corporation Balance Sheet?

14. How are discount and premium on the original sale of capital stock recorded?

15. What is meant by "organization expense"?

16. To what class of accounts does organization expense belong?

17. What is meant by "writing off" organization expenses? Give the entry to accomplish this.

18. What is a bond?

19. In what connection are bonds issued?

20. Distinguish between a bond and a mortgage.

21. What entry is made when mortgage bonds are sold at a discount? At a premium?

22. How would you show, on the Balance Sheet of a corporation, (a) discount on bonds; (b) premium on bonds?

Exercises

1. On December 31, 19—, the Profit and Loss account of the National Distributing Company shows a credit of $7,500, after the books have been closed to that point for the year. The authorized capital stock of the corporation was $100,000, of which $70,000 has been issued.

The directors declare a dividend of 6%, payable in cash on the following January 15.

(a) Show the final closing entry at December 31.

(b) Show the entry for the declaration of the dividend.

(c) Show the payment entry at January 15 (journal form).

2. Assume that, in question 1, the directors had decided to withhold $1,000 of the surplus profits as a reserve for plant extensions. Show the entry.

3. A corporation closes its books on June 30, 19—, the net profit for the six months just ended being $8,000. The di-

rectors declare a semi-annual dividend of 4% on $100,000 preferred stock and 2% on $50,000 common stock. The dividend is payable on July 15.

Show journal entries: (a) to close the Profit and Loss account; (b) to record declaration of the dividend; (c) to record payment of the dividend.

4. The Brown Machinery Company was organized on July 1, 19—, with an authorized capital stock consisting of $100,000 preferred stock, par value $100 per share, and $100,000 common stock, par value $50 per share. On December 31, 19—, there are outstanding 800 shares of preferred stock and 600 shares of common stock. The company closes its books on December 31, the net profit being $9,400.

The directors declare a cash dividend of 4% on the preferred stock, and vote to the common stockholders a stock dividend of one share of common stock for each 15 shares held. The dividends are payable on January 10.

(a) Assuming that the net profit has been transferred to the Surplus account, show journal entries necessary to record all facts.

(b) Show the capital section of the Balance Sheet, after payment of the dividend.

5. When the Acme Manufacturing Company was organized on April 1, 19—, the organization expenses, $450, were paid in cash. Show the entry.

On September 30, at the time of closing the books for the first six months' period, it was decided to write off 10% of the organization expenses. Show the entry.

How would you show the Organization Expenses account on the Balance Sheet at September 30? What amount?

6. On March 15, the Sterling Manufacturing Company purchased 500 shares of its own capital stock from stockholders. The par value was $100, and the stock was purchased at par.

Show the entry.

7. On July 15, 19—, Brown and King, stockholders in the *X* Corporation, each donate 100 shares of their capital stock to the corporation, to be sold to provide additional working capital. The par value was $100 per share. Show the entry.

8. Ten days later, the *X* Corporation sold all the stock donated by Brown and King (question 7) at 90. Show journal entries.

9. A corporation sold an issue of $50,000 worth of 6% Mortgage Bonds at a discount of 2%. The bonds had ten years to run.

Show the necessary entry (in journal form).

10. Referring to question 9, the corporation decided one year later to write off 10% of the bond discount.

Show the entry.

11. Using the following Trial Balance taken from the books of the Johnson Trading Co., for the six months ended December 31, 19—, in which all the accounts affected by inventories, except the trading or merchandise accounts, have already been adjusted, prepare:

(a) A Profit and Loss Statement.

(b) A Balance Sheet.

Capital Stock		$ 50,000
Land and Buildings	$ 30,000	
Furniture and Fixtures	2,800	
Mdse. Inventory, June 30, 19—	19,672.80	
Taxes and Insurance	259.25	
Provision for Bad Debts	656.13	
Freight Inward	489.20	
Depreciation, Land and Buildings	400	
Depreciation, Furniture and Fixtures	280	
Light and Heat	155	
Unexpired Insurance	87.50	
General Expenses	890	
Selling Expenses	463.35	
Reserve for Depreciation on Land and Buildings		400
Reserve for Depreciation on Furniture and Fixtures		280
Interest and Discount Cost		76.90
Reserve for Bad Debts		1,306.13
Salaries and Wages	9,872.50	
Sales		75,891.25
Sales Returns	278.60	
Purchases	51,899.40	
Return Purchases		384.75
Discount on Sales	1,492.15	
Discount on Purchases		1,896.50
Accounts Receivable	23,741.30	
Accounts Payable		12,321.60
Surplus		7,264.85
Cash	6,384.80	
	$149,821.98	$149,821.98

Mdse on hand December 31, 19—, $12,672.95.

12. From the following Trial Balance, taken from the books of the Hill Hardware Co., and the additional facts given, prepare a Profit and Loss Statement for the half year ending December 31, 19—:

Cash	$ 13,954.30	
Mdse. Inventory, June 30, 19—	17,920.00	
Office Furniture	4,000.00	
Office Supplies	475.30	
Delivery Equipment	5,000.00	
General Expense	2,354.10	
Inward Freight	3,563.20	
Notes Receivable	8,636.92	
Purchases	77,875.88	
Accounts Payable		$ 27,659.36
Insurance	1,800.00	
Interest on Notes Payable	698.53	
Selling Expense	3,456.88	
Sales		87,562.94
Sales Returns	2,327.50	
Reserve for Bad Debts		1,234.60
Accounts Receivable	26,756.20	
Notes Payable		13,498.40
Discount on Purchases		2,869.75
Discount on Sales	3,567.54	
Salaries and Wages	5,438.70	
Land and Buildings	70,000.00	
Capital Stock		100,000.00
Surplus		15,000.00
	$247,825.05	$247,825.05

Inventories, December 31, 19—:

Merchandise	$18,575.90
Office Supplies	265.00
Office Furniture, Ledger Value, Less 5% Depreciation.	
Delivery Equipment, Ledger Value, Less 10% Depreciation.	
Unexpired Insurance	300.00

Chapter XXIII

CORPORATIONS—Continued.

Subsidiary and Other Records Typical of a Corporation

The need of additional records for a corporation.—As has been explained in a previous chapter, the books, accounts, and methods of recording the routine business transactions of a corporation are the same as those employed in recording the transactions of a sole proprietor or a partnership. There are, however, transactions which are typical of a corporation and which require the keeping of records in addition to those used for recording the routine business transactions. The more important of these records are the following:

(1) Minute Book.
(2) Stock Certificate Book.
(3) Subscription Record.
(4) Subscribers' Ledger.
(5) Capital Stock Ledger.
(6) Stock Transfer Book.

Minute Book.—The *minute book* is the book in which are written the by-laws of the corporation and the minutes, that is, the official record of transactions and proceedings at the meetings of stockholders and of the board of directors.

The minute book of a corporation, like that of any other organized body, has no special form. It consists of a book of blank sheets, either bound or in loose-leaf form. It is kept by the secretary, whose duty it is to see to it that the proceedings at the stockholders' and board of directors' meetings are properly recorded and entered in the minute book.

When properly kept, the corporation's minute book should contain full particulars of important business transacted at the regular and special meetings of the stockholders and the board of directors.

Stock Certificate Book.—The blank certificates of stock of a corporation, together with a stub for each certificate, when bound, constitute the *stock certificate book.* The stock certificates and the accompanying stubs are numbered and are issued in numerical order.

The law usually requires that separate certificates be issued for each class of stock and that such certificates be signed by two officers, namely, the president or vice-president, and the treasurer or secretary of the corporation.

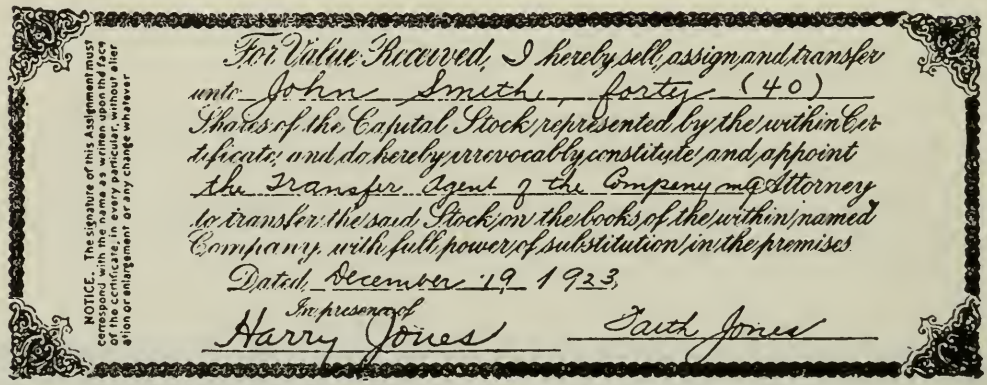


Form No. 30.—Form of Stock Certificate.

In issuing a stock certificate, the spaces left blank on the stub and the stock certificate are filled in and the certificate is signed by the officers, as required by law.

A form, known as an *assignment of certificates of stock,* is usually printed on the back of each certificate, so as to make possible the transfer of the shares represented by the certificate by the owner to another. When stock is assigned by the owner to another, it is important that the new owner surrender the certificate to the issuing corporation and procure a new certificate in his own name, so that he may be officially designated

on the books of the corporation as the owner of the stock represented by the certificate.



For Value Received, I hereby sell, assign, and transfer unto John Smith forty (40) Shares of the Capital Stock represented by the within Certificate, and do hereby irrevocably constitute and appoint the Transfer Agent of the Company my Attorney to transfer the said Stock on the books of the within named Company, with full power of substitution in the premises.

Dated, December 19 1923.

In presence of

Harry Jones — Faith Jones

NOTICE. The signature of this Assignment must correspond with the name as written upon the face of the certificate, in every particular, without alteration or enlargement or any change whatever.

Form No. 31.—Assignment of Certificate of Stock.

The Subscription Book.—It frequently happens that a corporation will receive subscriptions to capital stock under a subscription agreement by which the subscribers to such stock may pay for it on the installment plan.

In such cases, the corporation would issue subscription forms on which is printed the subscription agreement. The subscriber merely fills in and signs the form. These forms, when collected in one book, constitute the *subscription book,* from which postings are made to the individual subscribers' accounts in the subscribers' ledger. An entry, recording the total amount subscribed for, is made in the general journal.

On page 373 will be seen an illustration of a list of subscribers prepared from the subscription book.

Subscribers' Ledger.—The *subscribers' ledger* is a subsidiary ledger in which accounts with the individual subscribers are kept.

The need of such a ledger arises in the case of a corporation which sells stock on the installment plan and whose subscribers to such stock are numerous, as is usually the case in large corporations. In such cases, it is customary to keep a separate controlling account in the general ledger for each class of stock subscribed for, and to keep a separate subsidiary ledger for each class of subscribers.

For the purpose of illustrating the entries made on the subsidiary records of a corporation, the case of the American

Manufacturing Company, used in a previous chapter to illustrate the entries made on the general books, will again be accounts in the subscribers' ledger. An entry, recording the incorporation of a company may be shown

Consider the following:

January 2, 19—

1. The American Manufacturing Company, a corporation, was duly organized under the laws of the State of New York with an authorized capital stock of 2000 shares, divided into 1000 shares of preferred capital stock, par value of shares $100 each, and 1000 shares of common capital stock, par value of shares $100 each.

2. The four incorporators, A. Arnold, B. Burton, C. Clark, and D. Davis, each subscribed to 100 shares of the preferred capital stock at par.

3. Three incorporators, A. Arnold, B. Burton, and C. Clark, each paid $10,000 cash for their stock subscriptions.

4. Preferred stock certificates were issued to the three subscribers as follows:

Certificate No. 1—A. Arnold, 100 shares
Certificate No. 2—B. Burton, 100 shares
Certificate No. 3—C. Clark, 100 shares

The entries made on the financial books of the American Manufacturing Company have already been explained and illustrated; hence, there remains to explain and illustrate the procedure followed in making entries on the subsidiary records.

The preferred capital stock subscription book in this case would contain the following list of subscribers:

AMERICAN MANUFACTURING COMPANY
Subscriptions to Preferred Capital Stock, January 2, 19—

Name	*Address*	*Shares*	*Amount*
A. Arnold	470 Fifth Avenue, New York City	100	$10,000
B. Burton	1125 Bedford Avenue, Brooklyn, N. Y.	100	10,000
C. Clark	715 Garfield Avenue, New York City	100	10,000
D. Davis	54 Lincoln Place, New York City	100	10,000

Postings would be made from the subscription book to the debit side of the individual accounts in the subscribers' ledger.

Payments on account of stock subscriptions would be recorded in the cash receipts journal as follows:

Cash Receipts

Date	F.	Account Cr.	Explanation	Net Cash	Accounts Rec.	Sales Discount	Preferred Subscribers	General Ledger
19—								
Jan. 2		A. Arnold	In full	10,000 00			10,000 00	
2		B. Burton	In full	10,000 00			10,000 00	
2		C. Clark	In full	10,000 00			10,000 00	

Postings would be made from the Preferred Subscribers column to the credit side of the individual accounts in the subscribers' ledger.

After postings have been made, the accounts in the subscribers' ledger would appear as follows:

A. Arnold

19— Jan.	2	Subs. 100 shares		10,000 00	19— Jan.	2	Cash		10,000 00

B. Burton

19— Jan.	2	Subs. 100 shares		10,000 00	19— Jan.	2	Cash		10,000 00

C. Clark

19— Jan.	2	Subs. 100 shares		10,000 00	19— Jan.	2	Cash		10,000 00

D. Davis

19— Jan.	2	Subs. 100 shares		10,000 00					

The following is an abstract of the preferred stock subscribers' ledger:

AMERICAN MANUFACTURING CO.
Abstract of Subscribers to Preferred Stock Ledger, January 2, 19—

		D. Davis.....		$10,000 00

The total of the balances of accounts open in this ledger (which in this case consists of only one item) should be in agreement with the controlling account kept in the general ledger. See Subscribers to Preferred Capital Stock account, shown on page 349.

CERTIFICATE NO. 1

FOR

.....SHARES

ISSUED TO.....

DATED....., 19—

TRANSFERRED FROM.....

....., 19—

DATED.....

No. ORIGINAL CERTIFICATE	No. ORIGINAL SHARES	No. OF SHARES TRANSFERRED
.....	.....	.....

RECEIVED CERTIFICATE NO.....

FOR.....SHARES

....., 19—

.....

CERTIFICATE NO. 2

FOR

.....SHARES

ISSUED TO.....

DATED....., 19—

.....

CERTIFICATE NO. 3

FOR

.....SHARES

ISSUED TO.....

DATED....., 19—

Each of the three incorporators who paid for their subscriptions would now receive a certificate of preferred stock for the number of shares subscribed and paid for. The stubs of the three certificates issued to the respective subscribers are shown to the left. Stubs 2 and 3 are shown in condensed form for the purpose of brevity.

It is the practice in the smaller corporations to post from the certificate stubs to the stockholders' accounts in the capital stock ledger. In this connection, it should be noted that no amount appears on the stock certificate stub. Accordingly, in posting, the bookkeeper credits each stockholder for the number of shares of stock issued to him, but not for the amount of such shares, for, as will be seen, no amount appears on the certificate stub, from which postings are made.

As has already been explained, separate controlling accounts are kept in the general ledger for each class of stock. Accounts with individual stockholders are kept in subsidiary

ledgers known as *capital stock ledgers* or, as they are sometimes called, stock books or stockholders' ledgers.

Capital Stock Ledger.—The capital stock ledger is a subsidiary ledger in which accounts with stockholders of the corporation are kept. Corporations having a large number of stockholders keep a separate subsidiary ledger for each class of stock. A capital stock ledger is usually required by statute to be kept in most states. For example, the Stock Corporation Laws of the State of New York require that "every stock corporation shall keep at its office correct books of account of all its business and transactions, and a book to be known as the stock book, containing the names, alphabetically arranged, of all persons who are stockholders of the corporation, showing their places of residence, the number of shares of stock held by them respectively, the time when they respectively became the owners thereof, and the amount paid thereon."

The function of the capital stock ledger is to show the ownership *in shares* of each individual stockholder of the corporation. Accordingly, entries are made in the capital stock ledger expressed in terms of shares and not in dollars and cents.

The preferred capital stock ledger of the American Manufacturing Company, after posting from the stock certificate stubs, would appear as follows:

A. Arnold

				19— Jan.	2	Original Issue No. 1	100 shares

B. Burton

				19— Jan.	2	Original Issue No. 2	100 shares

C. Clark

				19— Jan.	2	Original Issue No. 3	100 shares

Thus, it will be seen that each stockholder is credited for the number of shares issued to him, as shown by the stock certificate stub.

Periodically a list of stockholders is prepared, showing the balance of shares carried to the credit of each stockholder's account.

The following is an abstract of the preferred stock ledger:

AMERICAN MANUFACTURING CO.
January 2, 19—

A. Arnold	100 shares
B. Burton	100 shares
C. Clark	100 shares
Total issued and outstanding	300 shares

Since each share of preferred stock, in this case, is of a par value of $100, it follows that the total par value of shares of preferred stock outstanding is 300 × $100, or $30,000. This amount should be in agreement with the difference between the balances of the Preferred Capital Stock Unissued and the Preferred Capital Stock Authorized accounts in the general ledger, as shown on page 337.

The complete procedure of organizing a corporation, from the filing of the stock certificate to the issuance of stock, including the entries made on both the general and subsidiary books, has now been illustrated in the case of the American Manufacturing Company.

Form of Capital Stock Ledger.—The form of the capital stock ledger illustrated thus far is that of the ordinary ledger account form. Where the law specifies the information which must be shown in the Capital Stock account, as is the case in most states, it is customary for corporations to use the form of account prescribed or approved by the state official who is charged with such duties.

For the purpose of illustrating the recording of items in a form of Capital Stock account approved by the Comptroller of the State of New York, and commonly used by New York corporations, assume that on February 1, C. Clark, who holds preferred stock certificate No. 3 for 100 shares of the American

Manufacturing Company, sells to F. Flynn, G. Gerard, and H. Hamlin, 25 shares each, retaining 25 shares for himself. He, accordingly, surrenders certificate #3 for 100 shares, which is canceled on the books of the corporation and in exchange for which certificates are issued as follows:

Certificate #4, C. Clark, 25 shares
#5, F. Flynn, 25 shares
#6, G. Gerard, 25 shares
#7, H. Hamlin, 25 shares

The entries in the Approved Capital Stock account of C. Clark follow:

C. Clark, 715 Garfield Avenue, New York City

Date of Transfer	*To Whom Transferred*	Certificate Numbers		*Number of Shares*	*Date of Issue of Transfer*	*From Whom Transferred*	*Amount Paid in Shares*	*Certificate No.*	*Number of Shares*
		Old Surrendered	*New Issued*						
19—					19—				
Feb. 1	F. Flynn	3	5	25	Jan. 2	Original issue	In full	3	100
	G. Gerard	3	6	25					
	H. Hamlin	3	7	25					
	Balance		4	25					
				100					100
					19—				
					Feb. 1	Balance		4	25

The capital stock ledger is the official record of ownership in a corporation, since accounts are kept only in the names of those to whom certificates of stock have been issued.

Although changes in ownership of shares in a large corporation are frequent and numerous, such transactions, it will be seen, do not affect the general books of the corporation. They involve merely the recording of such changes in the capital stock ledger.

Stock Transfer Book.—States which impose a tax on shares of stock transferred usually require corporations to keep a stock transfer book in which a record of every transfer of stock must be made.

A form of such a book approved by the Comptroller of the State of New York is as follows:

Stock Transfer Book

Date	Serial No. of Canceled Certificates	No. of Shares	By Whom Surrendered	To Whom Issued	Serial No. of New Certificates	No. of Shares	Number and Face Value of Stamps			
							2¢	4¢	etc.	Value
19—										
Feb. 1	3	100	C. Clark	C. Clark	4	25				
				F. Flynn	5	25				
				G. Gerard	6	25				
				H. Hamlin	7	25				

Review Questions

1. What subsidiary records peculiar to the corporate form of business organization are kept, in addition to the main books of account?

2. What is the purpose of the Minute Book? Why is this an important record?

3. Who makes entries in the Minute Book?

4. What information is contained in the Subscription Book? When is such a book necessary?

5. What purpose is served by the Stock Certificate Book?

6. What information is found in the Subscribers' Ledger?

7. What account in the general ledger of a corporation is the controlling account for the Subscribers' Ledger?

8. From what books of account would posting be done to the Subscribers' Ledger?

9. What purpose is served by the Capital Stock Ledger?

10. How is the Stock Transfer Book operated?

Exercises

1. The Jones Stores, Incorporated, was organized on January 15, 19—, with an authorized capital stock of $50,000, divided into 500 shares, par value $100. Of three incorporators, H. P. Jones, A. B. Condon, and R. F. Lawson, each subscribes for 100 shares of stock and pays one-half of his subscription in

cash. The organization expenses, amounting to $200, were paid in cash.

In addition to recording the above transactions (journal form) make entries for the following (the unissued stock is to be shown on the books):

Jan. 10, 19—. Subscriptions were received from the following persons, who paid 10% of their subscriptions in cash: D. C. Pratt, 10 shares; L. W. Coates, 10 shares; H. E. Dean, 5 shares.

15. The incorporators, Jones, Condon and Lawson, pay the balance due on their subscriptions and receive certificates (Nos. 1, 2 and 3).

25. D. C. Pratt and L. W. Coates both pay 30% of their subscriptions in cash.

26. H. E. Dean pays the balance of his subscription and receives certificate No. 4.

29. R. F. Lawson sells 10 shares of his stock to N. B. Ellis. Stock certificate No. 3 is canceled, and certificates No. 5 and No. 6 are issued to Lawson and Ellis, respectively.

30. Subscriptions are received as follows: D. W. North, 20 shares; G. C. Bell, 15 shares. These subscribers pay 50% of their subscriptions.

2. Set up the accounts required in the general ledger and in the Subscribers' Ledger, and post.

3. Prepare a schedule of balances of accounts in the Subscribers' Ledger, and prove with the controlling account, Subscribers to Capital Stock.

4. Without setting up accounts in the Capital Stock Ledger, prepare a schedule showing the amount of stock held by each shareholder. Show how this schedule proves with certain general ledger accounts.

Chapter XXIV

MANUFACTURING ACCOUNTS

Illustrations of Manufacturing Accounts

Trading and manufacturing compared.—The simplest kind of business is that of *trading,* by which is meant the buying and selling of commodities for the purpose of making a profit. Generally, in a trading business, commodities are sold in the same form in which they were purchased. A dealer in hardware, for example, who is engaged in trading, will offer for sale tools, such as hammers, saws, and screw-drivers, in the same form in which he received them. It will be seen that in a trading business the stock-in-trade usually consists of finished products.

Another kind of business is that of making finished products, such as hammers, saws, and screw-drivers. This is done by making changes in the condition or form of materials by the application of labor and machinery. The process is known as *manufacturing.*

In the manufacture of hammers, saws, and screw-drivers, for example, raw materials such as lumber and steel are required. By the application of labor and machinery, the lumber is cut and shaped into handles and the steel is forged or otherwise converted into the head of a hammer, the blade of a saw, or the bit of a screw-driver. These parts must then be assembled; that is, the respective handles must be attached to the heads, blades, or bits to make the hammers, saws, and screw-drivers which constitute the finished product.

The object in manufacturing commodities is to sell them at a profit. Thus, the manufacturer of tools, for example, produces the tools which are sold to dealers or others who trade in hardware.

Accounts required for a trading and a manufacturing business compared.—Discussions in this text, thus far, have been confined to explanations and illustrations of accounts commonly kept under the three types of business organization operating a trading business.

The manufacturer, like the trader, is engaged in buying and selling, except that the manufacturer buys raw materials and sells finished products; whereas the trader usually buys and sells finished products. In general, the accounts required for a trading business are also required for a manufacturing business. A manufacturing business, however, is engaged in additional activities, namely, manufacturing. For that reason, additional accounts are required for a manufacturing business.

A manufacturing business, for example, requires machinery and equipment: accordingly, an account is kept with machinery and equipment. The entries usually made in the account are as follows:

Machinery and Equipment

Debit:	Credit:
With cost of machinery and equipment purchased.	When sold or otherwise disposed of. With the reserve for depreciation of machinery and equipment created on the asset sold. With the book value, that is, the difference between cost and the reserve for depreciation created on the asset sold. (Note that the depreciation on machinery and equipment would be recorded in the Reserve for Depreciation of Machinery and Equipment account.)

The balance of this account is a debit. It represents the cost of the machinery and equipment owned. It is shown on the Balance Sheet as a fixed asset.

In a large manufacturing corporation, this account is supported by subsidiary records showing the cost and depreciation on individual items.

Reserve for Depreciation of Machinery and Equipment

Debit:	Credit:
When machinery is sold or otherwise disposed of— With the reserve created on the asset sold by a credit to the Machinery and Equipment account.	With the depreciation charges made periodically by a debit to Depreciation of Machinery and Equipment account.

The treatment of valuation reserve accounts on the Balance Sheet has already been illustrated and explained.

Other properties may be required in the case of a manufacturing business. Accounts such as Land and Buildings are not uncommon on the books of manufacturing corporations. Hence, their function will be illustrated here.

Land[1]

Debit:	Credit:
With cost value at time of purchase. With cost of improvements.	With total cost on sale of the property.

[1] A separate account should be kept for Land.

The balance of this account is a debit and represents the cost of the land owned. It is shown on the Balance Sheet as a fixed asset.

Buildings

Debit:	Credit:
With original cost of erection or purchase. With additions. With improvements that add to the value of the buildings.	When sold: With reserve created on the building sold. With the book value, that is, the difference between the cost and the reserve for depreciation.

The balance of this account is a debit and represents the cost of buildings owned. It is shown on the Balance Sheet as a fixed asset.

Reserve for Depreciation of Buildings

Debit:	Credit:
When building is sold or otherwise disposed of— With the reserve created on the asset sold by a credit to Buildings account.	With the depreciation charges made periodically by a debit to Depreciation of Buildings account.

The land and building are usually, but not always, mortgaged. If they are mortgaged, a Bond and Mortgage account is kept as follows:

Bond and Mortgage Payable

Debit:	Credit:
With any reduction or payment of the bond and mortgage.	With the amount of the bond and mortgage issued.

The balance of this account is a credit and represents a liability. Since a bond and mortgage usually is issued for a period of three or more years, the amount is shown on the Balance Sheet as a fixed liability.

The following list of accounts will serve to illustrate accounts representative of those generally used to record the total cost of finished product:

1. Purchases of Raw Materials
   Freight Inward
2. Direct Labor
3. Manufacturing Expenses:
   Indirect Labor
   Light
   Power
   Rent
   Insurance
   Repairs
   Depreciation of Machinery

4. Inventories:
   Raw Materials
   Goods in Process
   Finished Goods.

Raw materials, direct labor, and manufacturing expense constitute what are generally referred to as the *elements of cost* of a manufactured product.

Raw materials cost.—Material is necessary in the production of a manufactured article and, therefore, constitutes the first element of cost. Such material is commonly referred to as *raw material,* since it is to be converted from its raw state into a finished product.

Raw materials are purchased as needed, and, when received, are stored. When they are required for manufacture, they are withdrawn from the storeroom on written requisitions and put in the process of manufacture, to be converted into finished products.

Thus, it will be seen that an account or accounts must be kept with raw materials so that the cost of the materials consumed in manufacturing may be ascertained. The accounts usually kept may be seen from the following statement, showing the material cost of a manufactured product:

Inventory, Raw Materials, Jan. 1, 19—		$20,000
Purchases of Raw Materials	$42,000	
Freight Inward	50	
Total Cost of Purchases of Raw Materials		42,050
Total Raw Materials Available for Use		62,050
Less—Inventory, Raw Materials, Jan. 31, 19—		30,000
Cost of Materials Consumed		$32,050

Direct labor cost.—Material cannot be converted into a finished product without the aid of labor. Labor actually or directly engaged in converting raw materials into a finished product is known as *direct labor;* the cost for such services is known as the *direct labor cost.* It will be seen, therefore, that in order to ascertain the cost of labor actually employed in converting raw materials into finished products, an account must be kept for direct labor. Only one account is necessary to record the direct labor cost.

Prime cost.—The *prime cost* of a manufactured article consists of the cost of raw materials and supplies consumed and the direct labor cost. The prime cost would be shown in statement form as follows:

Cost of Materials Consumed	$32,050
Direct Labor Cost	10,000
Prime Cost	$42,050

The following formula will serve as an aid in arriving at the prime cost:

Total Cost of Materials Consumed + Direct Labor = Prime Cost.

Manufacturing expense cost.—The third element of cost consists of the cost of operating the plant and includes all manufacturing cost items other than raw materials and direct labor. Individual accounts are kept to record the different classes of manufacturing expense items, of which these shown in the following statement are illustrations:

Prime Cost		$42,050
Manufacturing Expenses:		
Indirect Labor[2]	$3,000	
Light	50	
Power	250	
Rent	1,000	
Insurance	200	
Repairs	200	
Depreciation of Machinery	700	
Total Manufacturing Expense		5,400
Total Cost of Goods Put in Process		$47,450

[2] The salary or wages of foremen or of the factory superintendent constitute "Indirect Labor."

Formula:

Prime Cost + Manufacturing Expense = Cost of Goods Put in Process.

Cost of goods manufactured.—The statements prepared thus far have accounted for the raw material cost, direct labor cost, and manufacturing expense cost. These three elements constitute the cost of material put in process during the

period, the labor engaged, and the manufacturing expenses incurred in converting such materials either into partly finished goods, known as *goods in process,* or into finished goods. Usually, there are goods in process of manufacture in a plant both at the beginning and at the close of an accounting period. It will be seen, therefore, that in arriving at the cost of goods manufactured, the inventory of goods in process at the beginning and at the close of the period must be considered. This is shown in the statement which follows:

Total Cost of Goods Put in Process	$47,450
Add—Inventory of Goods in Process, Jan. 1, 19—	15,000
Total Goods in Process Handled During the Period	62,450
Deduct: Inventory of Goods in Process, Jan. 31, 19—	20,000
Cost of Goods Manufactured	$42,450

Formula:

Cost of Goods Put in Process + and − Inventory Adjustments = Cost of Goods Manufactured.

Cost of goods sold.—As in the case of a trading business, so also in the case of a manufacturing business, the finished stock inventory at the beginning and close of an accounting period must be considered in arriving at the cost of goods sold. This is shown in the following statement:

Cost of Goods Manufactured	$42,450
Add—Inventory of Finished Goods, Jan. 1, 19—	10,000
Total Goods Available for Sale	52,450
Deduct—Inventory of Finished Goods, Dec. 31, 19—	9,000
Cost of Goods Sold	$43,450

Formula:

Cost of Goods Manufactured + and − Inventory Adjustments = Cost of Goods Sold.

The individual statements just illustrated, when made into one statement, constitute what is known as the Cost of Sales schedule. An illustration of a Cost of Sales schedule for a manufacturing business follows:

Manufacturing Company

Cost of Sales:

Materials Consumed:		
Inventory, Raw Materials, Jan. 1, 19—		$20,000
Add:		
Purchases of Raw Materials	$42,000	
Freight Inward	50	
Cost of Purchases of Raw Material		42,050
Total Material Available for Use		62,050
Less—Inventory, Raw Materials, Jan. 31, 19—		30,000
Cost of Materials Consumed		32,050
Direct Labor		10,000
Prime Cost		42,050
Manufacturing Expenses:		
Indirect Labor	3,000	
Light	50	
Power	250	
Rent	1,000	
Insurance	200	
Repairs to Machinery	200	
Depreciation of Machinery & Equipment	700	
Total Manufacturing Expense		5,400
Total Cost of Goods Put in Process		47,450
Add—Inventory, Goods in Process, Jan. 1		15,000
Total Goods in Process Handled during the period		62,450
Deduct—Inventory, Goods in Process, Jan. 31		20,000
Cost of Goods Manufactured		42,450
Add—Inventory, Finished Goods, Jan. 1		10,000
Total Finished Goods Available for Sales		52,450
Deduct—Inventory, Finished Goods, Jan. 31		9,000
Cost of Goods Sold		$43,450

The manner of ascertaining the cost of goods sold, in the case of a manufacturing concern, should be compared with that necessary in the case of a trader. In the trading business, goods are sold in the same form in which they are purchased. The trader, therefore, has no need for records of manufacturing costs. Compare the above cost schedule with the trading section of the statement on page 129.

A complete Statement of Profit and Loss and a condensed Statement of Profit and Loss, with a supporting Cost of Sales schedule for the Brown Manufacturing Company at January 31, 19—, follow:

BROWN MANUFACTURING CO.

Statement of Profit and Loss for the Month Ended January 31, 19—

Sales			$50,000
Cost of Sales			
Materials Consumed:			
Inventory Raw Materials, Jan. 1, 19—		$20,000	
Add:			
Purchases of Raw Materials	$42,000		
Freight Inward	50		
Cost of Purchases of Raw Material		42,050	
Total Material Supplies available for use		62,050	
Less Inventory Raw Materials Jan. 31, 19—		30,000	
Cost of Materials Consumed		32,050	
Direct Labor		10,000	
Prime Cost		42,050	
Manufacturing Expenses:			
Indirect Labor	3,000		
Light	50		
Power	250		
Rent	1,000		
Insurance	200		
Repairs to Machinery	200		
Depreciation of Machinery and Equipment	700		
Total Manufacturing Expense		5,400	
Total Cost of Goods Put in Process		47,450	
Add—Inventory—Goods in Process, Jan. 1		15,000	
Total Goods in Process Handled during the period		62,450	
Deduct Inventory—Goods in Process, Jan. 31		20,000	
Cost of Goods Manufactured		42,450	
Add—Inventory Finished Goods, Jan. 1		10,000	
Total Finished Goods available for sales		52,450	
Deduct—Inventory Finished Goods, Jan. 31		9,000	
Cost of Goods Sold			$43,450
Gross Profit on Sales			6,550
Operating Expenses:			
Selling Expenses		2,650	
Administrative Expenses		1,600	
Total Operating Expenses			4,250
Operating Income			2,300
Other Income:			
Purchase Discounts			2,800
Total Income			5,100
Deductions from Income:			
Sales Discounts		1,900	
Provision for Doubtful Accounts		300	
Total Deductions from Income			2,200
Net Profit for the Month			$ 2,900

BROWN MANUFACTURING CO.

Condensed Statement of Profit and Loss for the Month Ended January 31, 19—

Sales	$50,000	
Cost of Sales—Schedule 1	43,450	
Gross Profit on Sales		$6,550
Operating Expenses:		
Selling Expenses	2,650	
Administrative Expenses	1,600	
Total Operating Expenses		4,250
Operating Income		2,300
Other Income:		
Purchase Discounts		2,800
Total Income		5,100
Deductions from Income:		
Sales Discounts	1,900	
Provision for Doubtful Accounts	300	
Total Deductions from Income		2,200
Net Profit for the Month		$2,900

In the above condensed Statement of Profit and Loss, reference is made to a schedule showing the cost of goods sold (Schedule 1, page 391). The preparation of a Cost of Sales Schedule, to support the Statement of Profit and Loss, makes it possible to show the latter statement in a much shorter form. This is seen by comparing the above condensed statement with the complete form shown on page 389.

A comparison of the two statements will show that they are identical after the Gross Profit on Sales has been determined. In many cases, a condensed Statement of Profit and Loss is supported by several schedules. Such would be the case, in the statement prepared for the Brown Manufacturing Company, if the details in the remaining sections were also set up in the form of schedules.

BROWN MANUFACTURING CO.

Cost of Sales Schedule, Supporting Statement of Profit and Loss for the Month Ended January 31, 19—

Cost of Sales:		
Materials Consumed:		
Inventory Raw Materials, Jan. 1, 19—		$20,000
Add:		
Purchases of Raw Materials	$42,000	
Freight Inward	50	
Cost of Purchases of Raw Material		42,050
Total Material Supplies available for use		62,050
Less—Inventory Raw Materials, Jan. 31, 19—		30,000
Cost of Materials Consumed		32,050
Direct Labor		10,000
Prime Cost		42,050
Manufacturing Expenses:		
Indirect Labor	3,000	
Light	50	
Power	250	
Rent	1,000	
Insurance	200	
Repairs to Machinery	200	
Depreciation of Machinery and Equipment	700	
Total Manufacturing Expense		5,400
Total Cost of Goods Put in Process		47,450
Add Inventory—Goods in Process, Jan. 1		15,000
Total Goods in Process Handled during period		62,450
Deduct Inventory—Goods in Process, Jan. 31		20,000
Cost of Goods Manufactured		42.450
Add Inventory—Finished Goods, Jan. 1		10.000
Total Finished Goods available for sales		52,450
Deduct Inventory—Finished Goods, Jan. 31		9,000
Cost of Goods Sold		$43,450

Schedule No. 1

Balance Sheet.—The Balance Sheet of a manufacturing company requires no special consideration, since the classification of items in a Balance Sheet has been discussed in a previous chapter. The Balance Sheet of the Brown Manufacturing Company, at January 31, 19—, follows:

BROWN MANUFACTURING CO.
Balance Sheet, January 31, 19—

	Assets		
Current Assets:			
Cash		$ 6,550	
Accounts Receivable	$30,100		
Less—Reserve for Bad Debts	300	29,800	
Raw Materials		30,000	
Goods in Process		20,000	
Finished Goods		9,000	
Total Current Assets			$ 95,350
Fixed Assets:			
Machinery and Equipment		70,000	
Less—Reserve for Depreciation		7,700	62,300
Total Assets			$157,650
	Liabilities		
Current Liabilities:			
Vouchers Payable			$ 46,750
	Capital		
Capital Stock		82,000	
Surplus		28,900	
Total Capital			110,900
Total Liabilities and Capital			$157,650

Review Questions

1. How does the retail dealer obtain the merchandise which he sells to his customers?

2. How does the manufacturer obtain the merchandise which he sells?

3. Name three important elements of cost, in the manufacture of a product.

4. What group of expenses appears on the books of a manufacturer that does not appear on the books of a retailer?

5. Give several examples of manufacturing expenses.

6. What is the difference between direct labor and indirect labor?

7. What is the principal difference between a Profit and Loss Statement prepared for a manufacturer and one prepared for a retailer?

8. What elements are contained in "prime cost"?

9. When manufacturing expenses are added to prime cost, what result is obtained?

10. What is meant by a condensed statement of Profit and Loss?

11. What is a Cost of Sales schedule on a Statement of Profit and Loss prepared for a manufacturing business?

12. Give four formulas to show the manner of assembling the different items appearing on a Cost of Sales schedule.

13. Distinguish between operating expenses and manufacturing expenses.

14. Distinguish between raw materials, goods in process, and finished goods.

Exercises

1. The following accounts appeared in the Trial Balance of the Roberts Manufacturing Company on December 31, 19—:

Raw Materials Inventory, Jan. 1, 19—	$ 9,000
Goods in Process Inventory, Jan. 1, 19—	8,000
Finished Goods Inventory, Jan. 1, 19—	10,000
Purchases—Raw Materials	18,000
Freight Inward	260
Direct Labor	22,000
Factory Expenses	1,100
Indirect Labor	4,000
Repairs to Machinery	850
Insurance on Factory	160
Heat, Light and Power	2,800
Depreciation of Machinery	600
Depreciation of Factory	800

The inventories at December 31 were:

Raw Materials	$7,500
Goods in Process	8,100
Finished Goods	9,000

Prepare a statement showing the cost of goods sold during the year.

2. The following was the Trial Balance of the Empire Tool Company on July 1, 19—:

Cash	$ 8,900	
Accounts Receivable	9,000	
Raw Materials	6,000	
Goods in Process	9,600	
Finished Goods	11,000	
Land and Building	35,000	
Machinery	16,000	
Reserve for Depr. Building		$ 5,000
Reserve for Depr. Machinery		2,500
Accounts Payable		8,500
Capital Stock		75,000
Surplus		4,500
	$95,500	$95,500

The transactions for the six months' period following (summarized) were as follows:

Purchases of raw materials, on account	$20,000
Purchases of factory supplies, on account	600
Freight paid on purchases	310
Sales of finished goods to customers, on account	90,000
Cash collected from customers	85,000
Cash paid to creditors	19,000
Expenses paid:	
factory expense	1,500
advertising	1,200
general expenses	2,000
Payroll for the period:	
direct labor	35,000
indirect labor	5,000
salesmen's salaries	4,000
office salaries	2,400

Depreciation charges for the period were:

On buildings	$1,000
On machinery	900

(a) Open ledger accounts as shown in the Trial Balance, allowing 6 lines for each except Cash, which should have 12 lines. Insert the balances from the Trial Balance under date of July 1, 19—. Enter the foregoing transactions in the ledger (without journal entries), adding the new accounts needed. (Use date of December 31, 19—.)

(b) Take a Trial Balance from the ledger.

3. Making use of the Trial Balance prepared in question 2 (b), and the following inventories, prepare:

(a) A Cost of Sales schedule for the six months ended December 31.

(b) A condensed Statement of Profit and Loss.

(c) A Balance Sheet at December 31.

Inventories at December 31:

Raw Materials	$ 7,000
Goods in Process	10,000
Finished Goods	12,000
Factory Supplies	100

4. The Willard Manufacturing Company began business on January 1, 19—, manufacturing a certain commodity, all of one standard pattern. The bookkeeper, who understood the principles of double entry bookkeeping but who was not a trained accountant, prepared the following statements at the close of the year:

Expenses

Raw Material Purchases	$8,000	
Less—Raw Material Inventory, Dec. 31, 19—	1,000	
Material Used		$ 7,000
Wages and salaries		12,000
Freight		1,200
Insurance		600
Taxes		300
Advertising		1,000
Stationery and printing		500
Rent		600
Interest paid		200
General expense		3,000
Factory Repairs		300
Heat, light, and power		2,300
Miscellaneous Factory Expense		1,000
Total Expense for the year		$30,000

Statement of Cost of Manufacturing and Sale

Total Expense, as above	$30,000	
Goods in Process, none.		
Cost of Goods Manufactured		$30,000
Inventory, Finished Goods, Dec. 31, 19—		10,000
Cost of Goods Sold		$20,000

Statement of Profits

Net Sales	$30,000
Deduct:	
Cost of Goods Sold	20,000
Net Profit	$10,000

These statements were submitted to the president of the company. The president doubted the ability of the bookkeeper to prepare scientific statements of manufacturing cost and of profits, and called you in to verify the correctness of the results shown by the bookkeeper's statements. He requests you to prepare a statement showing:

Sales, Cost of Goods Sold, Gross Profit on Sales, Selling Expense, Administration Expense, Net Profit on Operations, Deductions from Income, Net Profit.

In the course of your investigation you find the following:

Wages and Salaries Account—Analysis:

Direct Labor	$ 3,000
Indirect Labor	1,000
Salesmen's salaries	4,000
Officers' salaries	4,000
Total	$12,000

Wages Accrued: not included in above:

Direct Labor	$ 500
Indirect Labor	100
Total	$ 600

Freight Account—Analysis:

Freight Inward	$ 800
Freight Outward	400
Total	$ 1,200

Insurance Account:
⅔ Unexpired.

Stationery and Printing:
Of the $500 paid for this item, $100 is on hand.

Interest Paid:
Of the $200 paid for this item, $40 represents Prepaid Interest.

The officers consent to charging depreciation on factory building, $20,000 at 5%; and on machinery, $5,000 at 10%. They also consent to a provision for bad debts equal to 1% of the sales.

Prepare a statement as requested by the president, supporting the statement by a separate Schedule for Cost of Sales.

Chapter XXV

MANUFACTURING ACCOUNTS—Continued

Closing Manufacturing Cost Accounts by the "Closing Inventory" Method

Methods of closing manufacturing cost accounts on the general books.—The method of closing manufacturing cost accounts on the general books will depend upon the system in use and the information which is made available to the bookkeeper. If no cost records are kept, in addition to the manufacturing accounts on the general books, then the bookkeeper, at the close of the accounting period, is furnished with the raw materials, goods in process, and finished goods inventories. His problem then is chiefly one of making the proper closing entries. This method will be referred to here as the closing inventory method of operating manufacturing accounts.

On the other hand, if detailed cost records are kept, the information which will be furnished to the bookkeeper will be of an entirely different character. Periodically, usually at the end of each month, he will be furnished with the amount of raw materials withdrawn from the storeroom and put in process of manufacture, as shown by the requisitions for raw materials; with the amount of direct labor consumed on work in process, as shown by time cards and other cost records; with the amount of manufacturing expenses, as shown by cost data; with the cost of work in process completed and transferred to finished stock, as shown by summary cost sheets; and, finally, with the cost of goods sold, as shown by the cost sheets and sales records. It will be seen that the bookkeeper's problem in this case is an entirely different one from that of recording the inventories at the close of the period. This method may be referred to as the *cost data method* of closing manufacturing accounts.

By the cost data method, the bookkeeper makes entries in the accounts affected, from reports and statements prepared

from cost data. As a result of such entries, the balances in the three inventory accounts—Raw Materials, Goods in Process, and Finished Goods—represent the inventories at the close of the period. This method can be employed only when cost figures are available.

Illustration of the "closing inventory" method of closing manufacturing cost accounts.—The method of closing manufacturing cost accounts, in cases where the bookkeeper is furnished only with the inventories at the close of the period, can best be illustrated by means of a problem.

The aim of the problem here considered is to illustrate the entries that are made in establishing on the books the accounts necessary to show the cost of goods sold and the entries necessary to close the ledger of a manufacturing business. The information furnished consists of:

The Trial Balance at January 1, 19—.
The transactions for the month of January, which are expressed in summary journal entry form, so as to permit of immediate posting.
The ledger accounts after posting the January transactions.
The Trial Balance at January 31, 19—.
The inventories to be considered in closing at January 31, 19—.
The closing entries.
The ledger accounts after closing.

BROWN MANUFACTURING COMPANY
Trial Balance, January 1, 19—

		Machinery and Equipment			70,000	00	
		Cash			10,000	00	
		Accounts Receivable			30,000	00	
		Raw Materials			20,000	00	
		Goods in Process			15,000	00	
		Finished Goods			10,000	00	
		Vouchers Payable					40,000	00
		Reserve for Depreciation—Mach. and Equip.					7,000	00
		Capital Stock					82,000	00
		Surplus					26,000	00
					155,000	00	155,000	00

The summary entries which appear in the various special journals under date of January 31, 19—, are as follows:

In the sales journal:

Accounts Receivable	$50,000	
Sales		$50,000

In the voucher register (Purchase Journal):

Purchases of Raw Materials	42,000	
Freight Inward	50	
Direct Labor	10,000	
Indirect Labor	3,000	
Light	50	
Power	250	
Rent	1,000	
Insurance	200	
Repairs to Machinery	200	
Selling Expense	2,650	
Administrative Expense	1,600	
Vouchers Payable		61,000

In the cash receipts journal:

Cash	48,000	
Sales Discounts	1,900	
Accounts Receivable		49,900

In the cash payments journal:

Vouchers Payable	54,250	
Cash		51,450
Purchase Discount		2,800

In the general journal:

(Note—The following adjusting entries appear in the general journal preparatory to closing the ledger at Jan. 31, 19—)

Depreciation of Machinery and Equipment	700	
Reserve for Depr.—Machinery and Equipment		700

To record depreciation for the month of January.

Provision for Doubtful Accounts	300	
Reserve for Bad Debts		300

To provide for bad debts on sales for January.

The ledger accounts follow:

Raw Materials

19— Jan.	1	Inventory	√	$20,000	00					

Purchases of Raw Materials

19— Jan.	31	Purchases	V.R.	42,000	00					

Freight Inward

19— Jan.	31		V.R.	50	00					

Direct Labor

19— Jan.	31		V.R.	10,000	00					

Indirect Labor

19— Jan.	31		V.R.	3,000	00					

Light

19— Jan.	31		V.R.	50	00					

Power

19— Jan.	31		V.R.	250	00					

Rent

19— Jan.	31		V.R.	1,000	00					

Insurance

19— Jan.	31		V.R.	200	00						

Repairs to Machinery

19— Jan.	31		V.R.	200	00						

Depreciation of Machinery

19— Jan.	31		J.	700	00						

Goods in Process

19— Jan.	1	Inventory	√	15 000	00						

Finished Goods

19— Jan.	1	Inventory	√	10,000	00						

Selling Expense

19— Jan.	31		V.R.	2,650	00						

Administrative Expense

19— Jan.	31		V.R.	1,650	00						

Provision for Doubtful Accounts

19— Jan.	31		J.	300	00						

Sales Discount

19—												
Jan.	31		C.	1,900	00							

Purchase Discount

						19—					
						Jan.	31		C.	2,800	00

Sales

						19—					
						Jan.	31		S.J.	50,000	00

Machinery and Equipment

19—												
Jan.	1	Balance	✓	70,000	00							

Cash

19—						19—					
Jan.	1	Balance	✓	10,000	00	Jan.	31		C.	51,450	00
	31		C.	48,000	00						

Accounts Receivable

19—						19—					
Jan.	1	Balance		30,000	00	Jan.	31		C.	49,900	00
	31		S.J.	50,000	00						

Accounts Payable

19—						19—					
Jan.	31		C.	54,250	00	Jan.	1	Balance	✓	40,000	00
							31		V.R.	61,000	00

Reserve for Depreciation of Machinery and Equipment

						19—					
						Jan.	1	Balance		7,000	00
							31		J.	700	00

Reserve for Bad Debts

19— Jan.	31		J.		300 00

Capital Stock

19— Jan.	1	Balance	✓		82,000 00

Surplus

19— Jan.	1	Balance	✓		26,000 00

The Trial Balance at January 31, 19—, follows:

BROWN MANUFACTURING COMPANY
Trial Balance, January 31, 19—

Raw Materials	20,000 00	
Purchases of Raw Materials	42,000 00	
Freight Inward	50 00	
Direct Labor	10,000 00	
Indirect Labor	3,000 00	
Light	50 00	
Power	250 00	
Rent	1,000 00	
Insurance	200 00	
Repairs to Machinery	200 00	
Depreciation of Machinery and Equipment	700 00	
Goods in Process	15,000 00	
Finished Goods	10,000 00	
Selling Expenses	2,650 00	
Administration Expenses	1,600 00	
Provision for Doubtful Accounts	300 00	
Sales Discounts	1,900 00	
Purchase Discounts		2,800 00
Sales		50,000 00
Machinery & Equipment	70,000 00	
Cash	6,550 00	
Accounts Receivable	30,100 00	
Vouchers Payable		46,750 00
Reserve for Depr. of Machinery and Equipment		7,700 00
Reserve for Bad Debts		300 00
Capital Stock		82,000 00
Surplus		26,000 00
	215,550 00	215,550 00

The books are now ready to be closed, and the bookkeeper is furnished with the following inventories:

Raw materials	$30,000
Goods in Process	20,000
Finished Goods	9,000

The adjusting and closing entries follow:

Journal, January 31, 19—

	Adjusting Entries			
	Raw Materials Inventory adjustments:			
	Purchases of Raw Materials	50 00		
	Freight Inward			50 00
	To add Freight In to Purchases.			
	—31—			
	Purchases of Raw Materials	20,000 00		
	Raw Materials			20,000 00
	To add the Raw Materials inventory at Jan. 1 to Purchases.			
	—31—			
	Raw Materials	30 000 00		
	Purchases of Raw Materials			30,000 00
	To reduce the cost of material consumed by the amount of the Raw Materials inventory at the close of the period.			
	Goods in Process Inventory adjustments:			
	—31—			
	Cost of Goods Manufactured	15,000 00		
	Goods in Process			15,000 00
	To add the Goods in Process inventory at the beginning to cost of goods manufactured.			
	—31—			
	Goods in Process	20,000 00		
	Cost of Goods Manufactured			20,000 00
	To reduce cost of goods manufactured by the amount of the Goods in Process inventory at the close.			
	Finished Goods Inventory adjustments:			
	—31—			
	Cost of Goods Sold	10,000 00		
	Finished Goods			10,000 00
	To transfer the Finished Goods inventory at the beginning to cost of goods sold.			
	—31—			
	Finished Goods	9,000 00		
	Cost of Goods Sold			9,000 00
	To reduce the cost of goods sold by the amount of the Finished Goods inventory at the close of the period.			

January 31, 19—

Closing Entries				
Cost of Goods Manufactured	47,450	00		
Purchases of Raw Materials			32,050	00
Direct Labor			10,000	00
Indirect Labor			3,000	00
Light			50	00
Power			250	00
Rent			1,000	00
Insurance			200	00
Repairs to Machinery			200	00
Depreciation of Machinery and Equipment			700	00
To close above accounts into Cost of Goods Manufactured account				
—31—				
Cost of Goods Sold	42,450	00		
Cost of Goods Manufactured			42,450	00
To close the Cost of Goods Manufactured account.				
—31—				
Sales	43,450	00		
Cost of Goods Sold			43,450	00
To transfer cost of goods sold to the Sales account.				
—31—				
Sales	6,550	00		
Profit and Loss			6,550	00
To transfer gross profit to the Profit and Loss account.				
—31—				
Profit and Loss	4,250	00		
Selling Expense			2,650	00
Administrative Expense			1,600	00
To transfer the operating expenses to Profit and Loss.				
—31—				
Profit and Loss	2,200	00		
Provision for Doubtful Accounts			300	00
Sales Discounts			1,900	00
To transfer the above balances to Profit and Loss.				
—31—				
Purchase Discounts	2,800	00		
Profit and Loss			2,800	00
To transfer the above balance to Profit and Loss.				
—31—				
Profit and Loss	2,900	00		
Surplus			2,900	00
To transfer the net profit to the Surplus account.				

The ledger accounts, after closing, will be as follows:

Raw Material

19—						19—					
Jan.	1	Balance	✓	20,000	00	Jan.	31	Purchases	J.	20,000	00
Feb.	1	Inventory	J.	30,000	00						

Purchases of Raw Materials

19—						19—					
Jan.	31	Purchases	V.R.	42,000	00	Jan.	31	Inventory	J.	30,000	00
	31	Inventory	J.	20,000	00		31	Material Consumed	J.	32,050	00
	31	Freight Inward	J.	50	00						
				62,050	00					62,050	00

Freight Inward

19—						19—					
Jan.	31		V.R.	50	00	Jan.	31	Purchases	J.	50	00

Direct Labor

19—						19—					
Jan.	31		V.R.	10,000	00	Jan.	31	Cost of Goods Man.	J.	10,000	00

Indirect Labor

19—						19—					
Jan.	31		V.R.	3,000	00	Jan.	31	Cost of Goods Man.	J.	3,000	00

Light

19—						19—					
Jan.	31		V.R.	50	00	Jan.	31	Cost of Goods Man.	J.	50	00

Power

19—						19—					
Jan.	31		V.R.	250	00	Jan.	31	Cost of Goods Man.	J.	250	00

Rent

19—						19—					
Jan.	1		V.R.	1,000	00	Jan.	31	Cost of Goods Man.	J.	1,000	00

Insurance

19—							19—					
Jan.	31		V.R.	200	00		Jan.	31	Cost of Goods Man.	J.	200	00

Repairs to Machinery

19—							19—					
Jan.	31		V.R.	200	00		Jan.	31	Cost of Goods Man.	J.	200	00

Depreciation of Machines and Equipment

19—							19—					
Jan.	31		J.	700	00		Jan.	31	Cost of Goods Man.	J.	700	00

Goods in Process

19—							19—					
Jan.	1	Balance	✓	15,000	00		Jan.	31	Cost of Goods Man.	J.	15,000	00
Feb.	1	Inventory	J.	20,000	00							

Cost of Goods Manufactured

19—							19—					
Jan.	31	Goods in Proc.	J.	15,000	00		Jan.	31	Goods in Process	J.	20,000	00
	31	Raw Materials	J.	32,050	00			31	Cost of Goods Sold	J.	42,450	00
	31	Direct Labor	J.	10,000	00							
	31	Mfg. Expense	J.	5,400	00							
				62,450	00						62,450	00

Finished Goods

19—							19—					
Jan.	1	Balance		10,000	00		Jan.	31	Inventory	J.	10,000	00
Feb.	1	Inventory	J.	9,000	00							

Cost of Goods Sold

19—							19—					
Jan.	31	Finished Goods Inv.	J.	10,000	00		Jan.	31	Finished Goods Inv.	J.	9,000	00
	31	Manufactured	J.	42,450	00			31	Sales		43,450	00
				52,450	00						52,450	00

Selling Expense

19—							19—					
Jan.	31		V.R.	2,650	00		Jan.	31	Profit and Loss	J.	2,650	00

Administration Expenses

19—						19—					
Jan.	31		V.R.	1,600	00	Jan.	31	Profit and Loss	J.	1,600	00

Provision for Doubtful Accounts

19—						19—					
Jan.	31		J.	300	00	Jan.	31	Profit and Loss	J.	300	00

Sales Discounts

19—						19—					
Jan.	31		C.J.	1,900	00	Jan.	31	Profit and Loss	J.	1,900	00

Sales

19—						19—					
Jan.	31	Cost of Goods Sold	J.	43,450	00	Jan.	31		S.	50,000	00
		Profit and Loss	J.	6,550	00						
				50,000	00					50,000	00

Profit and Loss

19—						19—					
Jan.	31	Selling Expense	J.	2,650	00	Jan.	31	Sales	J.	6,550	00
	31	Adminis. Expense	J.	1,600	00		31	Purchase Discounts	J.	2,800	00
	31	Prov. for doubtful accts.	J.	300	00						
	31	Sales Discount	J.	1,900	00						
	31	Surplus	J.	2,900	00						
				9,350	00					9,350	00

Purchase Discounts

19—						19—					
Jan.	31	Profit and Loss	J.	2,800	00	Jan.	31		C.	2,800	00

Machinery and Equipment

19—											
Jan.	1	Balance	✓	70,000	00						

Cash

19—							19—					
Jan.	1	Balance		10,000	00		Jan.	31		C.	51,450	00
	31		C.	48,000	00							

Accounts Receivable

19—							19—					
Jan.	1	Balance		30,000	00		Jan.	31		C.	49,900	00
	31		S.	50,000	00							

Vouchers Payable

19—							19—					
Jan.	31		C.	54,250	00		Jan.	1	Balance		40,000	00
								31		V.R.	61,000	00

Reserve for Depreciation of Machinery and Equipment

							19—					
							Jan.	1	Balance	✓	7,000	00
								31		J.	700	00

Reserve for Bad Debts

							19—					
							Jan.	31		J.	300	00

Capital Stock

							19—					
							Jan.	1	Balance	✓	82,000	00

Surplus

							19—					
							Jan.	1	Balance	✓	26,000	00
								31	Profit and Loss	J.	2,900	00

The post-closing Trial Balance of the Brown Manufacturing Company follows:

BROWN MANUFACTURING CO.
Post-Closing Trial Balance January 31, 19—

Raw Materials	$ 30,000 00	
Goods in Process	20,000 00	
Finished Goods	9,000 00	
Machinery and Equipment	70,000 00	
Cash	6,450 00	
Accounts Receivable	30,100 00	
Vouchers Payable		$ 46,750 00
Reserve for Depreciation of Machinery and Equipment		7,700 00
Reserve for Bad Debts		300 00
Capital Stock		82,000 00
Surplus		28,900 00
	$165,650 00	$165,650 00

Exercises

1. The following is a Trial Balance of the Jones Chemical Company at June 30, 19—:

Debits		*Credits*	
Land and Buildings	$ 50,000	Bond and Mortg. Payable	$ 30,000
Plant Equipment	40,000	Accounts Payable	20,000
Furniture and Fixtures	5,000	Notes Payable	15,000
Raw Materials, Jan. 1	10,000	Res. for Depr.—Buildings and Equipment	9,000
Goods in Process, Jan. 1	5,000	Capital Stock	50,000
Finished Goods, Jan. 1	6,000	Surplus	16,900
Cash	18,000	Sales	66,925
Accounts Receivable	15,000	Int. on Bank Balances	25
Notes Receivable	10,000		
Insurance Unexpired	200		
Purchases	40,000		
Labor	4,000		
Factory Supplies	600		
Factory Expense	1,200		
Salaries of Salesmen	2,000		
Administrative Expense	850		
	$207,850		$207,850

The inventories at June 30, 19—, were:

Raw materials, $14,000; goods in process, $3,000; finished goods, $9,000.

The buildings have depreciated to the extent of $500; plant equipment, $800; furniture and fixtures, $300.

The interest due on notes receivable is $100; on notes payable, $150, and on bond and mortgage payable, $300.

The unexpired insurance at June 30 is $50.

Provide for bad debts ($669.25) estimated to equal 1% of sales.

Prepare:

(a) A Cost of Sales Schedule for the six months' period.
(b) A condensed Statement of Profit and Loss.
(c) A Balance Sheet at June 30, 19—.

2. The following is a Trial Balance of the ledger of the Derby Manufacturing Company, April 30, 19—:

Debits		*Credits*	
Land and Buildings	$ 70,000	Capital Stock Authorized	$100,000
Machinery and Equipment	25,000	Bond and Mortg. Payable	50,000
Furniture and Fixtures	1,950	Creditors	17,400
Raw Materials, Jan. 1	24,300	Notes Payable	3,200
Goods in Process, Jan. 1	11,640	Notes Receivable Disc.	4,000
Finished Goods, Jan. 1	9,700	Interest on Notes Rec.	55
Cash	58,197	Purchase Returns	930
Capital Stock Unissued	10,000	Purchase Allowances	370
Customers	23,500	Sales	175,000
Notes Receivable	6,500	Discount on Purchases	1,230
Insurance Prepaid	750	Int. on Bank Balances	87
Advertising Paid in Advance	1,200	Res. for Depr. on Buildings and Equipment	12,000
Discount on Bonds	500	Res. for Doubtful Accounts	3,000
Purchases, Raw Materials	92,000	Surplus	6,000
Inward Freight	280		
Factory Supplies	1,840		
Labor	21,650		
Superintendence	450		
Heat, Light and Power	3,470		
Factory Expense	180		
Repairs	350		
Salaries of Salesmen	900		
Outward Freight	270		
Office Expense	75		
Cash Discount on Sales	2,660		
Office Salaries	1,200		
Int. on Bond and Mortgage	1,400		
Int. on Notes Payable	110		
Taxes	1,390		
Sales Returns	1,400		
Sales Allowances	360		
Telephone and Telegraph	27		
Postage	23		
	$373,272		$373,272

The inventories on April 30, 19—, were as follows:

Raw materials	$23,500
Goods in process	11,000
Finished goods	9,500
Factory supplies	400

Insurance unexpired amounts to $600.
Advertising paid in advance amounts to $900.
20% of the discount on bonds is to be written off.
Interest accrued on bond and mortgage is $100.
Interest accrued on notes payable is $15.
Accrued interest on notes receivable is $10.
Taxes accrued amount to $50.
Depreciation charges amount to $700.
Reserve for doubtful accounts is to be increased by $500.

Prepare:

(a) Adjusting journal entries.
(b) Working Sheet.
(c) Statement of Profit and Loss for the four months ended April 30, 19—, supported by a schedule showing the cost of sales.
(d) Balance Sheet at April 30.
(e) Entries to close the ledger at April 30.

3. Show adjusting journal entries to be made for the following facts prior to closing the books of the Lane Manufacturing Company at December 31, 19—:

(a) Freight unpaid on purchases, raw material	$ 17
(b) Factory Supplies account shows a total debit of $280; amount now on hand	44
(c) Factory Insurance was prepaid for one year, beginning July 1, previous	230
(d) Factory Payroll, accrued	390
(e) Salaries of foremen, accrued	80
(f) Interest accrued on Notes Receivable	12
(g) Interest accrued on Notes Payable	15
(h) Depreciation of Machinery and Tools	265
(i) Depreciation of Factory Building	400
(j) Depreciation of General Factory Equipment	100
(k) Interest on Mortgage Payable	66
(l) Taxes accrued	150
(m) Reserve for Bad Debts is to be increased by 2% of Net Sales, $129,500.	

4. The following is a Trial Balance taken from the general ledger of the Singer Manufacturing Company at December 31, 19—:

Land	$ 16,000.00	
Building	30,000.00	
Reserve for Depreciation—Building		$ 3,000.00
First Mortgage Bonds		50,000.00
Machinery and Equipment	32,000.00	
Reserve for Depreciation—Machinery and Equipment		6,400.00
Furniture and Fixtures	4,000.00	
Raw Materials, Jan. 1, 19—	22,500.00	
Goods in Process, Jan. 1, 19—	14,500.00	
Finished Goods, Jan. 1, 19—	51,400.00	
Cash	44,800.00	
Notes Receivable	26,500.00	
Accounts Receivable	85,400.00	
Notes Payable		24,600.00
Accounts Payable		42,800.00
Capital Stock		150,000.00
Treasury Stock	30,000.00	
Surplus		29,200.00
Purchases—Raw Materials	185,900.00	
Freight Inward	2,560.00	
Direct Labor	32,400.00	
Indirect Labor	8,900.00	
Heat, Light, and Power	2,650.00	
General Factory Expense	3,400.00	
Factory Insurance	2,400.00	
Advertising Paid in Advance	6,800.00	
Salesmen's Salaries	6,400.00	
Salesmen's Traveling Expenses	2,040.00	
Insurance Unexpired	690.00	
Sales		351,000.00
Returned Sales	29,800.00	
Office Salaries	4,200.00	
Stationery and Printing	600.00	
Postage	675.00	
General Office Expense	425.00	
Rent, General Office	2,500.00	
Interest on 1st Mortgage Bonds	3,000.00	
Interest on Notes Payable	1,500.00	
Discount on Sales	6,580.00	
Interest on Notes Receivable		320.00
Cash Discount on Purchases		3,200.00
	$660,520.00	$660,520.00

Inventories at Dec. 31, 19—:

Raw Materials	$20,900.00
Goods in Process	12,000.00
Finished Goods	48,000.00

Adjustments at Dec. 31, 19—:

Interest Accrued on Notes Payable	$ 200.00
Interest Accrued on Notes Receivable	650.00
Unexpired Insurance amounts to	490.00
Create a Reserve for Bad Debts	1,250.00
Advertising consumed	1,800.00
Increase Reserves for Depreciation:	
Buildings	1,500.00
Machinery and Equipment	2,175.00
Furniture and Fixtures	400.00

Prepare:

(a) Adjusting journal entries at December 31.
(b) Working Sheet.
(c) A Statement of Profit and Loss, supporting the item Cost of Sales by a schedule.
(d) A Balance Sheet at December 31.
(e) Entries necessary to close the ledger.

5. The following accounts appeared on the ledger of the Briggs Manufacturing Company on June 30, 19—:

Raw Materials, Jan. 1, 19—	$10,200
Goods in Process, Jan. 1, 19—	7,500
Finished Goods, Jan. 1, 19—	12,000
Purchases—Raw Materials	22,000
Inward Freight	570
Factory Payroll	19,500
Superintendence	6,400
Expenses—Factory	780
Repairs to Machinery	690
Factory Insurance Prepaid	300
Power and Light	3,000
Depreciation of Factory	900
Depreciation of Machinery and Tools	650

The inventories at June 30 were:

Raw Materials	9,200
Goods in Process	8,000
Finished Goods	11,500
Factory Insurance Prepaid	150

Prepare a statement showing the cost of goods sold during the six months ended June 30.

6. A Trial Balance taken from the books of the Worcester Mfg. Co., on June 30, 19—, is as follows:

Debits		*Credits*	
Cash	$ 18,325.00	Creditors	$ 13,500.00
Imprest Cash Fund	125.00	Notes Payable	4,500.00
Customers	16,450.00	Sales	39,200.00
Notes Receivable	10,200.00	Purchase Returns	100.00
Land	29,000.00	Purchase Allowances	80.00
Buildings	32,000.00	Discount on Purchases	520.00
Plant Equipment	5,000.00	Int. on Bank Balances	36.00
Office Furniture and Fixtures	2,000.00	Int. on Notes Receivable	200.00
Advances to Salesmen for Expenses	300.00	1st Mortgage 5% Bonds	15,000.00
Discount on Notes (Prepaid Interest)	125.00	Preferred Capital Stock Authorized	25,000.00
Advertising Paid in Advance	150.00	Common Capital Stock Authorized	50,000.00
Insurance Unexpired	960.00	Surplus	15,722.00
Finished Goods, Jan. 1, 19—	4,000.00		
Goods in Process, Jan. 1, 19—	1,500.00		
Raw Materials, Jan. 1, 19—	6,000.00		
Purchases, Raw Materials	9,200.00		
Sales Returns	130.00		
Sales Allowances	25.00		
Inward Freight	90.00		
Outward Freight	130.00		
Office Salaries	275.00		
Stationery	90.00		
Cash Discount on Sales	950.00		
Salaries of Salesmen	720.00		
Office Expense	95.00		
Int. on Notes Payable	28.00		
Heat, Light and Power	700.00		
Direct Labor	7,200.00		
Indirect Labor	1,340.00		
Factory Expense	250.00		
Organization Expense	1,000.00		
Discount on Bonds	500.00		
Preferred Capital Stock Unissued	15,000.00		
	$163,858.00		$163,858.00

Provide for depreciation on buildings and plant equipment, $1,275; on office furniture and fixtures, $250.

The inventories on hand at June 30 are as follows:

Raw Materials	$2,200
Goods in Process	2,500
Finished Goods	1,500

Insurance unexpired is $650.

Provide for a Reserve for Bad Debts, taking 1% of the Gross Sales.

The interest accrued on 1st Mortgage 5% Bonds is $375.

The discount on notes applicable to the period is $50.

The amount of advertising used during the period is $25.

It is desired to write off 10% of the organization expense.

Taxes accrued amount to $100.

The bank has credited our account with $45 for interest on balances.

The discount on bonds is to be reduced $100.

Prepare:

(a) Adjusting journal entries.
(b) A Working Sheet.
(c) A Cost of Sales Schedule.
(d) A Condensed Statement of Profit and Loss.
(e) A Balance Sheet at June 30.
(f) Entries to close the ledger at June 30.

7. The Davis & Jones Manufacturing Co. was incorporated on June 30, 19—, under the laws of the State of New York, with an authorized capital of $500,000. It purchased all of the assets and assumed all of the liabilities of the firm of Davis & Jones, as set forth in the following Balance Sheet, dated June 30, 19—, giving in consideration its entire issue of capital stock, which stock was all taken by Davis & Jones.

Balance Sheet, June 30, 19—

Assets		*Liabilities and Capital*	
Plant and Machinery	$175,000	Accounts Payable	$ 26,250
Raw Material Inventory	102,625	Notes Payable	3,500
Accounts Receivable	113,750	Wages Due and Unpaid	1,250
Notes Receivable	7,500	R. Davis, Capital	240,000
Cash	32,125	B. Jones, Capital	160,000
	$431,000		$431,000

The change in organization was not reflected on the books at the time of incorporation, but at the close of the first fiscal year of the corporation's existence the condition of the books was shown by the following Trial Balance:

Trial Balance, June 30, 19—

R. Davis, Capital		$ 240,000
B. Jones, Capital		160,000
Plant and Machinery	$ 187,500	
Raw Material Inventory, June 30 (Year Ago)	102,625	
Sales		657,025
Purchases—Raw Material	240,000	
Labor	172,500	
Office Salaries	35,000	
Traveling Expenses	12,000	
Interest Cost	3,000	
Stationery and Printing	875	
Rent and Taxes	21,000	
Sales Returns and Allowances	11,250	
Fuel	23,000	
Insurance	875	
Freight Inward	8,750	
Commission Expense	31,875	
Advertising Expense	2,500	
Notes Receivable	30,575	
Notes Payable		5,500
Accounts Receivable	180,575	
Accounts Payable		39,250
Cash	37,875	
	$1,101,775	$1,101,775

Additional information:

Depreciation on plant and machinery, 5%; unexpired insurance, $375; bad debts (to be written off), $1,625; inventory of raw material, June 30, $98,025.

Make such entries as would convert the partnership books into those of the corporation, and prepare a Statement of Profit and Loss for the year just ended, and a Balance Sheet as of June 30.

Chapter XXVI

THE VOUCHER SYSTEM

The control over cash payments by the voucher system.—The growth of a business organization usually results in a distribution of the work of keeping its records. As a rule, more employees are engaged and more authority is delegated by officers to employees. Thus, it will be seen that methods of control which were found adequate when the business was small, and when authority was confined to a few individuals, may be wholly unsuited now that the business has grown and authority is not confined to a few, but is vested in many officers and employees. Moreover, there is always the tendency to reduce the mechanical work of recording transactions.

As a result, there arose the need of a more systematic method of control over cash payments, and a desire to reduce the mechanical work in connection with the handling of cash payments. Accordingly, there was developed what is known as the *voucher system.* By this method, no payment may be made without a written authorization known as a voucher.

Voucher defined.—The dictionary defines the word *voucher* as "a receipt or other document to establish the authenticity of a business transaction." The word "voucher," as used in accounting, is a document which, when properly approved, serves as evidence of the bookkeeper's authority for making entries. The term *voucher* is commonly associated with the thought of payments that are to be made or that have been made by a business. It, therefore, is understood to be supporting evidence of the bookkeeper's authority, not only for making entries, but also for making payments.

The check itself, when paid and returned by the bank, is the voucher which covers the payment made.

Form of the voucher.—The form of the voucher which is used for authorizing payment varies to meet the individual

needs of a business. In some cases, it is a simple form listing merely the date and the amount of each invoice attached to the voucher. The voucher, in such cases, is approved for payment by the auditor or controller. The invoices themselves bear the approval:

1. As to quantity and quality of goods received by the receiving clerk.
2. As to terms and prices by the purchasing agent.
3. As to extensions and totals by someone in the accounting department assigned to such duties.

On the face or on the back of the voucher, provision is made for indicating the account distribution to be made by the bookkeeper in recording the voucher in the voucher register. In a large business organization, this is done by the accountant or an assistant.

On page 420 is an illustration of a voucher form such as might be used for the Brown Manufacturing Co., whose transactions were considered in the previous chapter. An examination of the voucher form will show that it was prepared following the receipt of a bill for $300 from the Power & Light Co. The total amount to be paid is shown of the face of the form. On the reverse side is shown the distribution of the amount. In other words, the bookkeeper is shown the entry to be made for this bill.

In a large manufacturing company, there are purchases of many different kinds. Someone familiar with the details of each particular purchase, and the use which is to be made of the things that have been bought, indicates the proper treatment on the books of account. A purchase of brick, for instance, to be used for an addition to the building, would require a debit to the Building account. If, on the other hand, the brick had been purchased for the purpose of constructing a foundation for a piece of machinery, the account debited would be Machinery and Tools. Obviously, the bookkeeper could not be expected to have this information.

BROWN MANUFACTURING CO., INCORPORATED
120–128 Garfield Road
New York City, N. Y.

Date
Voucher No. 10

Pay to Power & Light On Jan. 27. 19-
415 West St.,
N. Y. City

Invoices Audited and Certified To Be Correct

Payment Authorized

Auditor

Treasurer

Entered on Voucher Register by Page

Entered on Cash Book by Page

Check No. 109

Date	Amount	Date	Amount	Deductions		Summary	
				Explanations	Amount		
Jan. 27	300 00					Total	300 00
						Credits	
						Discount	
						Net	300 00

Form A.—Voucher Form.

The reverse side of the voucher is illustrated on page 421. Later in this chapter it will be shown that the entry there indicated is to be made in a special book known as a Voucher Register. Expressed here in journal form, the entry is as follows:

Light	$ 50
Power	250
Vouchers Payable	$300

Distribution		
Freight Inward		
Purchases, Materials and Supplies		
Direct Labor		
Indirect Labor		
Light	50	00
Power	250	00
Rent		
Insurance		
Repairs		
Selling Expense		
Salaries of Salesmen		
Advertising		
Administrative Expense		
Office Salaries		
General Expenses		
Other Accounts		
Total	300	00

Form B.—Reverse Side of Voucher Form.

Sometimes the check and a duplicate voucher are contained in one form. This form is known as a *voucher check.*

The voucher, when properly approved, becomes the bookkeeper's authority for making the necessary entry in the voucher register.

Voucher register defined.—The *voucher register,* as its name implies, is a journal used for recording or registering such liabilities of a business for goods purchased or services received, and such assets acquired, as are evidenced by vouchers.

Form of the voucher register.—In general, the form of the voucher register is the same as that of the purchase journal, except that additional columns are required in the voucher register to record such information as the voucher number, the date of payment, and the check number.

The functions of the voucher register.—The functions of the voucher register are the same as those of the purchase journal and the accounts payable ledger combined. As has already been explained, the function of the purchase journal is to record amounts owing to creditors, and that of the accounts payable ledger is to keep accounts with creditors. The voucher register is made to serve both these purposes by the use of three additional columns to record the voucher number, the date of payment, and the check number.

Operation of the voucher register.—A change in business customs has resulted in a constant increase in the number of business organizations adopting the voucher system method of making payments, so that to-day this method is quite common. In order to take advantage of the cash discount allowed, it was the practice at one time to make a separate payment to a creditor for each invoice bearing a different date. The terms of sale now usually provide that cash discount will be allowed on invoices dated from the 16th to the 31st, if paid on the 10th of the month following, and on invoices dated from the 1st to the 15th, if paid on the 25th of the current month. Thus, it will be seen that, instead of making a separate payment for each invoice on the discount date, as was the custom in the past, it is now the practice, where the terms are such as those explained, to make only two payments to a creditor during any one month.

Likewise the system of providing for cash payments has been changed. It is now customary to place invoices received from creditors in a file, according to the dates of payments, until payments are to be made. A separate voucher is then prepared for each creditor. All invoices received during the period from any one creditor are then listed on one voucher.

Recording vouchers in the voucher register.—Regardless of the number of invoices which a voucher may represent, each voucher is recorded by the bookkeeper as one transaction in the voucher register, in the same manner as the individual invoice was previously recorded in the purchase journal.

Vouchers are issued in numerical sequence. Therefore, in making the entry in the voucher register, one must take care to record the voucher number. In that respect only does the

recording of a voucher in the voucher register differ from that of recording an invoice in the purchase journal.

Posting the voucher register.—At the end of the month, postings of totals are made from the voucher register to accounts in the general ledger, in the same manner as postings to accounts in the general ledger would be made from the purchase journal, except that the title of the account to be credited for the total of the amount column would be descriptive of the liability. Hence, instead of crediting the Accounts Payable account, as would be the case where a purchase journal is used, an account entitled Vouchers Payable is credited, in cases where the voucher register is used.

No postings are made during the month, since the keeping of accounts with creditors by the voucher system is ordinarily dispensed with.

Recording dates of payment and check number in the voucher register.—When a voucher is paid, an entry is made in the cash payments journal. Periodically, the bookkeeper records from the cash payments journal, in the voucher register on a line with the voucher paid, the date of payment and the check number. In this manner the bookkeeper is able to ascertain the amounts owing to individual creditors as these are evidenced by vouchers.

Thus, it will be seen that by indicating in the voucher register the date of payment and the check number, on a line with the number of the voucher paid, the voucher register is made to serve the double purposes of the purchase journal and the accounts payable ledger.

Preparing list of unpaid vouchers in the voucher register. At the end of the month, the bookkeeper prepares, in the voucher register, a list of unpaid vouchers. The total of the unpaid vouchers represents the vouchers payable. This is a liability and corresponds to the total of the accounts payable schedule in cases where a purchase journal is used and creditors' accounts are kept in the accounts payable ledger.

Illustration of the voucher register.—An illustration of the voucher register of the Brown Manufacturing Co., whose transactions were illustrated in Chapter XXIV, is shown on pages 424–425.

VOUCHER REGISTER

	Date	Voucher No.	Payment Date	Payment Ck. No.	In Favor of	Amount	Raw Materials Purchases	Raw Materials Freight In	Direct Labor
1	Jan. 3	1	Jan. 13	113	Reynolds & Co.	15,000	15,000		
2	5	2	Jan. 3	101	Jay Realty Co.	1,000			
3	5	3	Jan. 15	104	Clark Mfg. Co.	12,000	12,000		
4	5	4	Jan. 5	102	N. Y. Central R. R.	50		50	
5	9	5	Jan. 9	103	Payroll	4,225			2,400
6	12	6	Jan. 25	108	Niagara Ins. Co.	200			
7	13	7			New Product Co.	3,000	3,000		
8	15	8			Machinery Rep. Co.	200			
9	16	9	Jan. 16	105	Payroll	4,425			2,675
10	17	10	Jan. 27	109	Power & Light Co.	300			
11	20	11	Jan. 30	112	Atlas Mfg. Co.	7,550	7,550		
12	21	12			Dennis Co.	2,500	2,500		
13	23	13	Jan. 23	106	Payroll	4,125			2,450
14	24	14	Jan. 25	107	Hall & Co.	1,000	1,000		
15	30	15	Jan. 30	111	Payroll	4,125			2,475
16	31	16			Reynolds & Co.	950	950		
17	31	17	Jan. 30	110	F. Smith	250			
18	31	18			E. Connor	100			
19						61,000	42,000	50	10,000
20					*Summary Entry*				
21					Purchases—Raw Materials	42,000			
22					Freight Inward	50			
23					Direct Labor	10,000			
24					Indirect Labor	3,000			
25					Light	50			
26					Power	250			
27					Rent	1,000			
28					Insurance	200			
29					Repairs	200			
30					Selling Expense	2,650			
31					Administrative Expense	1,600			
32					Vouchers Payable		61,000		
33						61,000	61,000		
34					List of Unpaid Vouchers				
35					December Vouchers	40,000			
36					7	3,000			
37					8	200			
38					12	2,500			
39					16	950			
40					17	100			
41						46,750			

Recording cash payments under the voucher system.—Every voucher issued and recorded in the voucher register represents a liability which is carried on the books in the Voucher Payable account. Since, under the voucher system, no payment may be made unless authorized by voucher, it follows that every check drawn is in payment of a liability carried on the books in the Vouchers Payable account, and, therefore, must be recorded in the cash payments journal by a debit entry to that account. Thus, it will be seen that the procedure in recording cash payments under the voucher system

JANUARY, 19--

Manufacturing Expense						Selling Expense	Administrative Expense	F.	Other Accounts	Amount
Indirect Labor	Light	Power	Rent	Insurance	Repairs					
			1,000							
850				200		600	375			
775	50	250			200	600	375			
700						600	375			
675						600	375			
						250	100			
3,000	50	250	1,000	200	200	2,650	1,600			

is very simple. Only one account, namely, the Vouchers Payable account, is debited for each payment made.

The work of posting the cash payment journal is greatly reduced under the voucher system. No postings are made during the month, and only a few postings need be made at the end of each month.

An illustration of the cash payments journal of the Brown Manufacturing Company, whose transactions for the month of January have been previously illustrated, follows. It should be noted that no general ledger column is found in this book when the voucher system is used.

Cash Payments, January, 19—

Date	*Check No.*	*Voucher No.*	*In Favor of*	*Net Cash*	*Purchase Discount*	*Vouchers Payable*
19—						
Jan. 3	101	2	Jay Realty Co.	1 000 00		1,000 00
5	102	4	N. Y. Central R. R. Co.	50 00		50 00
9	103	5	Payroll	4,225 00		4,225 00
15	104	3	Clark Mfg. Co.	10,800 00	1,200 00	12,000 00
16	105	9	Payroll	4,425 00		4,425 00
23	106	13	Payroll	4,125 00		4,125 00
25	107	14	Hall & Co.	900 00	100 00	1,000 00
25	108	6	Niagara Ins. Co.	200 00		200 00
27	109	10	Power & Light Co.	300 00		300 00
30	110	17	F. Smith	250 00		250 00
30	111	15	Payroll	4,125 00		4,125 00
30	112	11	Atlas Mfg. Co.	7,050 00	500 00	7,550 00
13	113	1	Reynolds & Co.	14,000 00	1,000 00	15,000 00
				51,450 00	2,800 00	54,250 00
			Summary Entry			
			Vouchers Payable	54,250 00		
			Cash		51,450 00	
			Purchase Discount		2,800 00	
				54,250 00	54,250 00	

Problems of the voucher system.—Some of the problems which must be considered in a discussion of the voucher system are those of handling purchase returns and allowances, notes given in payment of vouchers, and partial payments made under the voucher system.

Purchase returns and allowances.—The method of handling purchase returns and allowances depends upon whether such transactions are few in number or otherwise.

If the transactions are few in number, a voucher charge form may be used and recorded as a red ink entry in the voucher register. The voucher charge form is similar to the voucher form, but is usually printed on paper of a different color so as to distinguish it from the regular voucher.

Where such transactions are numerous, it may be necessary to keep a special voucher charge journal in which the voucher charges are recorded in the same manner as the vouchers are recorded in the voucher register.

The voucher charge forms are filed with the unpaid vouchers, and the amount of the voucher charge is deducted in the next remittance made to the creditor. If the practice is fol-

lowed of making no deductions for charges against creditors in remittances made to them, as is the case with some corporations, then the creditors are requested to make payment of charges against them covering allowances and returns.

Notes Payable.—When a voucher is paid by note, an entry must be made in the journal or in the notes payable register where such a book is used as a journal. The entry, expressed here in journal form, follows:

Vouchers Payable
    Notes Payable
  To record note issued
to.....in pay-
ment of voucher No.—

It should be noted that care must be taken to record in the voucher register the payment of the voucher by note.

Partial Payments.—The voucher system is not suitable for a business which follows the practice of making numerous partial payments.

When a partial payment is made, the original voucher may be canceled and two vouchers issued in its stead, one for the amount of the partial payment to be made, the other for the amount of the balance.

Care must be taken to indicate in the voucher register the date of cancellation, on a line with the voucher canceled.

Vouchers Payable account.—As has already been explained, one of the functions of the voucher register is the same as that of the accounts payable ledger in the case where creditors' accounts are kept. The accounts payable ledger is controlled by means of an Accounts Payable account kept in the general ledger. Thus, it will be seen that, since the voucher register is used as a subsidiary ledger, it also requires a controlling account. The controlling account kept in the general ledger to control the voucher register is the Vouchers Payable account. Entries are made in this account as follows:

Vouchers Payable

Debit:	Credit:
With total payments of vouchers, as shown by the vouchers payable columns in the cash payments journal. With payments of vouchers made by notes, as recorded in the general journal or in the notes payable journal. With cancellation of vouchers, as recorded in the journals. With purchase returns and allowances under certain conditions.	With total vouchers issued, as shown by the amount columns in the voucher register.

The balance of this account is a credit and represents the amount owing to creditors, as is evidenced by unpaid vouchers. It is shown on the balance as a current liability.

Advantages and disadvantages of the voucher system.—The chief advantages and disadvantages of the voucher system may be summarized as follows:

Advantages:

1. The use of the accounts payable ledger is dispensed with, thus effecting a great saving in mechanical work.
2. The control over payments is established by fixing responsibility for the authorization of such payments.
3. The method of recording payments is facilitated.
4. The classification of expenditures is confined to one book, the voucher register.
5. The audit of the books is expedited.

Disadvantages:

1. The problem of handling returns and allowances, notes payable, and partial payments is made more difficult.
2. The difficulty arises of determining the volume of business done with any one creditor.

Review Questions

1. How does a voucher system of keeping books provide for a control over cash payments?

2. What is meant by a " voucher " ?

3. Explain what is meant by a " voucher check."

4. What is the purpose of a voucher register?

5. Is the voucher register a journal? Why?

6. What other journal does a voucher register resemble?

7. Explain how the voucher register does away with the accounts payable ledger.

8. To what ledger is posting done from the voucher register?

9. Explain the posting from a voucher register.

10. What account in the general ledger may be said to control the voucher register?

11. How is a schedule of accounts payable obtained under the voucher system?

12. Why does the cash payments journal have no general ledger column in a voucher system? Why no ledger folio column?

13. Explain how you would record the payment of a voucher by a promissory note.

14. Explain how partial payments of vouchers payable are handled.

15. Name the principal advantages and disadvantages of the voucher system.

Exercises

1. For this exercise use a two-column general journal, a cash payments journal, and a voucher register. The cash payments journal is to have columns arranged as follows: Date; Check No.; Voucher No.; In Favor Of; Net Cash; Purchase Discounts; Vouchers Payable. The voucher register is to have columns arranged as follows: Date; Voucher No.; Date of Payment; Check No.; In Favor Of; Amount; Raw Materials; Direct Labor; Indirect Labor; Factory Expense; Selling Expense; General Expense; Other Accounts; L. F.; Amount.

Record, in the books described, the following selected transactions taken from the business of the Simplex Manufacturing Company:

June 1, 19—. Issued voucher No. 50 to establish an Imprest Cash Fund. Paid by check No. 45, $50.

3. Received invoice of Empire Steel Co., raw materials, terms 2/10, n/30, $600; voucher No. 51.

4. Voucher No. 52, Bell Realty Co., rent of building for June, $300; paid by check No. 46.

6. Payroll for the week, voucher No. 53; direct labor, $1,000, indirect labor, $125, office salaries, $100; total, $1,225. Paid by check No. 47.

8. Invoice of Davis & Co., raw materials, $450, terms 2/10, n/30. Freight had been paid and added to the invoice, $12.50. Total, $462.50, voucher No. 54.

10. Paid People's Telephone Co. for telephone service, $7.50. (Number all vouchers and all checks consecutively.)

12. Paid bill of the Ladd Electrical Co. for repairs made to lighting equipment in the factory, $17.50.

13. Payroll for week: direct labor, $900; indirect labor, $125; office salaries, $100; total, $1,125. Paid Empire Steel Co., invoice of June 3, $600 less 2%.

15. Paid bill of Acme Printing Co. for advertising circulars just delivered, $33.50.

18. Paid Davis & Co., invoice of June 8, $462.50, less 2% on $450.

20. Invoices were received as follows: Haley & Co., raw materials, $500, terms 30-day note; Brown Brothers, raw materials, terms 2/10, n/60, $850.

Payroll for the week: direct labor, $1,200; indirect labor, $125; office salaries, $100; total, $1,425.

23. Gave Haley & Co. a 30-day note, dated June 20, in settlement of invoice of June 20, $500.

25. Received invoice of City Coal Co., for 25 tons of coal delivered, $240. (Debit Fuel.)

26. Invoice of American Machinery Co. for new lathe purchased, $750, terms one-half cash, balance a 20-day note.

27. Gave American Machinery Co. a check, $375, and a 20-day note, $375, to settle invoice of June 26.
Invoice of Towner & Co., $6.50, supplies for factory timekeeper; terms 10 days net. (Factory expense.)
Payroll for week: direct labor $1,100; indirect labor, $125; office salaries, $100; total, $1,325.
29. Invoice of Erie R.R. Co., freight inward, $27.60.
30. Gave petty cashier a check for $41.50 to replenish the petty cash. The voucher was distributed as follows: factory expense, $12; selling expense (postage), $15; general expense, $14.50; total, $41.50.

Instructions:

(a) Rule up the voucher register and prepare a summary entry to indicate the posting of totals.
(b) Close the cash payments journal, assuming the balance at June 30 to be $4,150. Prepare the summary entry.

2. Open a Vouchers Payable account and post to it from the three journals used in question 1.

3. Prepare a list of unpaid vouchers and prove with the Vouchers Payable account.

Chapter XXVII

CORPORATION AND MANUFACTURING PRACTICE SET

Introductory

The purpose of this set is to afford the student practice in the use of the voucher register, in the recording of transactions, and in the preparation of statements of a manufacturing business operating under the corporate type of business organization. The transactions which follow are such as might occur in the business exemplified.

This set covers the transactions for the month of July of the New York Steel Pipe Company, Incorporated. The corporation is engaged in manufacturing rigid steel pipe for the electrical, plumbing, and steam-fitting trades. The business had been conducted as a partnership for several years, under the name of New York Steel Pipe Company, at 110–118 Water Street, New York City. It is to be operated as a corporation, beginning July 1. Because of the goodwill that now attaches to the business, it was decided to make only a slight change in the name on incorporating, by adding the word "Incorporated."

One of the objects in incorporating the business was to provide additional capital. This, the partners believe, will be necessary for expansion as the result of a patent obtained on a new process of making pipe, which will greatly improve the product and reduce the manufacturing cost.

The student is considered to be the general bookkeeper who is called upon to open a new set of books for the corporation under the guidance of the accountant.

Books to be Used

The books to be used have been planned and designed by the accountant. They are as follows:

Books of original entry.—The following books are to be used as journals from which postings will be made to accounts in the ledger: general journal, sales journal, sales returns and allowances journal, voucher register, cash receipts journal, cash payments journal, notes receivable register, and notes payable register.

A petty cash book will be kept, but no postings will be made from that book.

All notes and drafts receivable and payable are to be recorded in the notes receivable and notes payable registers, and posted from those books.

Books of final entry.—One general ledger is to be kept and two subsidiary ledgers, namely, the customers' ledger and the subscribers' ledger. The subscribers' accounts will be few in number. The last page in the customers' ledger will be devoted to subscribers' accounts.

Accounts to be Opened

The accountant has prepared a list of accounts to be opened in the General Ledger and instructs the bookkeeper to open four accounts on each page. Letters have been used to indicate the position of accounts on the page. Thus, the letter "A" indicates the first, "B" the second, "C" the third, and "D" the fourth account on the page.

Open accounts in the General Ledger as follows:

Balance Sheet Accounts

1A	Cash—Citizens National Bank	3B	Goods in Process
1B	Imprest Cash Fund	3C	Finished Goods
1C	Subscribers to Preferred Capital Stock	3D	Manufacturing Supplies
1D	Accounts Receivable	4A	Shipping and Packing Supplies
2A	Reserve for Doubtful Accounts	4B	Land
2B	Notes Receivable	4C	Factory Buildings
2C	Notes Receivable Discounted	4D	Reserve for Depreciation of Buildings
2D	Accrued Interest Receivable	5A	Machinery and Equipment
3A	Raw Materials	5B	Reserve for Depreciation of Machinery and Equipment

5C Office Equipment
5D Reserve for Depreciation of Office Equipment
6A Auto Trucks
6B Reserve for Depreciation of Auto Trucks
6C Goodwill
6D Patents
7A Organization Expense
7B Insurance Unexpired
7C Advertising Prepaid
7D Interest Prepaid
8A Accounts Payable
8B Vouchers Payable
8C Notes Payable
8D Taxes Accrued
9A Salaries and Wages Accrued
9B Accrued Interest Payable
9C Consignments Inward
9D Bond and Mortgage Payable
10A Preferred Capital Stock Authorized
10B Preferred Capital Stock Unissued
10C Subscriptions to Preferred Capital Stock
10D Common Capital Stock Authorized
11A Common Capital Stock Unissued
11B Common Treasury Stock
11C No Par Common Stock
11D Reserve for Working Capital
12A Surplus
12B A. A. Realty Corp.—Vendors
12C Protested Checks and Notes
12D New York Steel Pipe Company

Profit and Loss Accounts

13A Sales
13B Sales Returns
13C Sales Allowances
13D Consignments Outward
14A Purchases—Raw Materials
14B Freight In
14C Purchases — Manufacturing Supplies
14D Direct Labor
15A Indirect Labor
15B Light, Heat, and Power
15C Factory Rent
15D Repairs
16A Taxes
16B Factory Insurance
16C Depreciation of Factory Building
16D Depreciation of Machinery and Equipment
17A Salaries of Salesmen
17B Traveling Expense
17C Advertising
17D Auto Expense
18A Shipping and Packing Expense
18B Freight Out
18C Office Salaries
18D Officers' Salaries
19A Stationery and Printing
19B Office Supplies
19C Postage
19D Telephone and Telegraph
20A General Expense
20B Office Rent
20C Insurance—General
20D Organization Expense Written Off
21A Depreciation of Office Equipment
21B Provision for Bad Debts
21C Interest Earned

21D Purchase Discount
22A Rent Income
22B Commissions Earned
22C Interest Cost
22D Sales Discount
23A Cost of Goods Manufactured
23B Cost of Goods Sold
23C Profit and Loss

Open accounts in the Customers' Ledger as follows:

Accounts Receivable Ledger

1A A. L. Andrews, New York City
1B Boston Contracting Co., Boston, Mass.
1C Burns & Co., Newark, N. J.
1D Connell Trading Co., Atlanta, Ga.
2A Gibbs & Gibbs, Brooklyn, N. Y.
2B Miller & Sons, New York City
2C St. Paul Electric Co., St. Paul, Minn.
2D Thomson Electric Co., White Plains, N. Y.
3A Watt Manufacturing Co., New York City
3B Werner Electric Co., New York City
3C Emerson Manufacturing Co., Cleveland, O.
3D Alford & Sons, New York City
4A Forbes & Co., New York City
4B Burnett Manufacturing Co., Brooklyn, N. Y.
4C C. O. D.
4D Dover Electric Co., New York City

Use the last page in the Customers' Ledger as the Subscribers to Preferred Stock Ledger and open accounts as follows:

Subscribers' Ledger

1A L. Lewis
1B M. Martin
1C N. Nathan
1D O. Orlando

Organization of the Corporation

1. The New York Steel Pipe Company, Incorporated, was organized on July 1, 19—, under the laws of the State of New York, with an authorized issue of 3000 shares each of non-voting preferred and common capital stock, of a par value of $100 per share; also 1200 shares of no par value common capital stock with voting rights.

(Note.—You, as bookkeeper, are instructed by the accountant to make the necessary pro-forma entry in the general journal and to record the authorized issue of the preferred and common par value stock. Make the entry.)

—2. The corporation takes over the business of the firm for $240,000. The Balance Sheet of the firm and its supporting schedules follow:

NEW YORK STEEL PIPE COMPANY
Balance Sheet, June 30, 19—

Current Assets:			
Cash, Citizens National Bank		$15,515.20	
Accounts Receivable—Schedule 1	$54,100.00		
Less Res. for Doubtful Accounts	2,605.00	51,495.00	
Notes Receivable—Schedule 3		5,400.00	
Accrued Interest Receivable		16.00	$ 72,426.20
Inventories:			
Raw Materials		20,800.90	
Goods in Process		15,320.85	
Finished Goods		18,662.70	54,784.45
Fixed Assets:			
Machinery and Equipment	60,660.00		
Less Reserve for Depreciation	12,132.00	48,528.00	
Office Equipment	2,436.00		
Less Reserve for Depreciation	487.20	1,948.80	
Auto Trucks	16,000.00		
Less Reserve for Depreciation	4,000.00	12,000.00	62,476.80
Deferred Charges:			
Insurance Unexpired			1,200.00
Total Assets			$190,887.45
Current Liabilities:			
Accounts Payable—Schedule 2		$ 7,862.45	
Notes Payable—Schedule 4		3,000.00	
Accrued Interest Payable		25.00	$ 10,887.45
Capital:			
A. Allen, Capital		60,000.00	
B. Baker, Capital		60,000.00	
C. Collins, Capital		60,000.00	180,000.00
Total Liabilities and Capital			$190,887.45

SCHEDULE 1
Accounts Receivable, June 30, 19—

Terms: 5% payable 10th and 25th, n/30

Name	*Address*	*Date of Invoice*	*Amount*
A. G. Andrews	New York City	June 25	$ 3,500
Boston Contracting Co.	Boston, Mass.	March 15	900
Burns & Co.	Newark, N. J.	June 18	8,000
Connell Trading Co.	Atlanta, Ga.	June 24	3,000
Gibbs & Gibbs	Brooklyn, N. Y.	June 26	6,000
Miller & Sons	New York City	June 16	12,500
St. Paul Electric Co.	St. Paul, Minn.	May 25	4,200
Thomson Electric Co.	White Plains, N. Y.	June 4	8,000
Watt Manufacturing Co.	New York City	June 10	5,500
Werner Electric Co.	New York City	June 20	2,500
	Total Accounts	Receivable	$54,100

SCHEDULE 2
Accounts Payable, June 30, 19—

Name	*Address*	*Date of Invoice*	*Amount*
Bell Steel Co.	Trenton, N. J.	June 10	$5,662.45
Excelsior Enamel Co.	Pittsburgh, Pa.	June 25	2,200.00
	Total Accounts	Payable	$7,862.45

SCHEDULE 3
Notes Receivable, June 30, 19—

Name	*Date*	*Due*	*Interest Accrued June 30, 19—*		*Amount*
			Rate	*Amount*	
Chicago Steel Co.	June 10	July 10	6%	$10	$3,000
Dennis Mfg. Co.	June 15	July 15	6%	6	2,400
			Total Notes	Receivable	$5,400

SCHEDULE 4
Notes Payable, June 30, 19—

Name	*Date*	*Due*	*Interest Accrued June 30, 19—*	*Amount*
American Steel Co.	May 10	July 10, 19—	$25	$3,000

You are instructed by the accountant to make separate entries in the general journal of the corporation:

(a) To record the assets, including goodwill, $60,000, taken over.

(b) To record the liabilities assumed and the reserves.

You are also instructed:

(c) To record as of July 1, 19—, in the respective customers' accounts in the Accounts Receivable ledger, the balances as shown on the Accounts Receivable Schedule.

(d) To record in the net cash column, on the receipts side of the cash journal, the balance of cash $15,515.20. Underscore the amount.

(e) To issue and to record, in the voucher register, vouchers 1 and 2 in favor of Bell Steel Company, $5,662.45, and Excelsior Enamel Co., $2,200, respectively, as shown on the accounts payable schedule. Use the "Other Accounts" column and the supporting money columns, debiting Accounts Payable account.

(f) To make entries in the general journal reversing accrued interest receivable $16, and accrued interest payable $25.

3. The partners, between themselves, agreed that preferred stock shall be issued for the book value of the properties and par value common stock shall be issued for the goodwill value of the business. Accordingly, stock certificates were issued as follows:

Preferred Stock:

Cert. No. 1, A. Allen, 600 shares
Cert. No. 2, B. Baker, 600 shares
Cert. No. 3, C. Collins, 600 shares

Common Stock—Par Value $100:

Cert. No. 1, A. Allen, 200 shares
Cert. No. 2, B. Baker, 200 shares
Cert. No. 3, C. Collins, 200 shares

You are instructed to make the necessary entries in the general journal to record the preferred and the common capi-

tal stock issued in payment of the business of the New York Steel Pipe Company, which account, of course, is to be debited.

4. The patents which had been acquired by the partners prior to the formation of the corporation, and which did not appear on the books of the firm, are now turned over to the corporation, at a value of $75,000, payable in 1200 shares (the entire authorized issue) of no par common stock. No-par common stock certificates were issued as follows:

Cert. No. 1, A. Allen, 400 shares
Cert. No. 2, B. Baker, 400 shares
Cert. No. 3, C. Collins, 400 shares

Make the necessary entry in the general journal.

5. In order to provide working capital, the former partners donate to the corporation the common capital stock received by them in payment of goodwill. Accordingly, common capital stock certificates are received as follows:

A. Allen, Cert. No. 1 for 200 shares
B. Baker, Cert. No. 2 for 200 shares
C. Collins, Cert. No. 3 for 200 shares

Record the receipt of treasury stock in the general journal.

6. Of the treasury stock received, 400 shares were immediately sold for cash at $90 per share. Common stock certificates numbered 1 and 2 were canceled, and certificate No. 4, for 400 shares, was issued in their stead to the purchaser, D. Daniels.

Record the cash received in the cash receipts journal on line 2 and the difference between the par value and the amount received in the general journal, debiting the Reserve for Working Capital account.

7. Subscriptions were received on July 1, 19—, to preferred capital stock, payable 10% on signing the agreement, 30% on July 22, and the balance in two equal installments on August 1 and August 11. The names of the subscribers follow:

L. Lewis	40 shares	@ par,	$4,000
M. Martin	40 shares	@ par,	4,000
N. Nathan	100 shares	@ par,	10,000
O. Orlando	100 shares	@ par,	10,000

Make the necessary entry in the general journal. Each subscriber made the initial payment of 10%; a total of $2800 was received. Make the necessary entry in the cash receipts journal, using line 3 to record the credit to Subscribers to Preferred Capital Stock account and lines 4 to 7, inclusive, for the names of the individual subscribers and the amounts paid by each. Note that the individual amounts should be written short, that is, not extended in any money columns.

8. Purchased from the A. A. Realty Corporation on July 1, land and building situated at 50–58 South Street, New York City, for occupancy on September 1. The property was purchased for $75,000, subject to a mortgage of $50,000, on which three months' interest @ 6%, $750, has accrued. There have also accrued on the property, taxes for two months, $300. An individual account is to be kept on the books for land. The land is appraised at $25,000 and the building at $50,000. Make the entry in the general journal recording the purchase of the property, crediting the A. A. Realty Corporation, Vendor, $23,950. Record in the voucher register: voucher No. 3 in favor of A. A. Realty Corporation, debiting A. A. Realty Corporation, Vendor, account. Record payment of voucher No. 3 by check No. 1 in the cash payments journal.

Post journal entries made thus far.

The other transactions for the month of July follow:

July 1

9. Received invoice from Water Street Realty Company for January rent, $1,250. Issued voucher No. 4, distributing the rent as follows: factory rent, $1,000; office rent, $250.

10. Paid voucher No. 4.

11. Established imprest petty cash fund, $100, voucher No. 5. Drew check in favor of petty cash covering voucher No. 5.

July 2

12. Sold (note that the terms are 5/10, n/30 for all sales, unless otherwise stated):

Burns & Company	$6,177.80
Connell Trading Co.	2,812.25

13. Received invoice from Pittsburgh Steel Company for carload of steel, $16,238.50, distributed on voucher No. 6 as follows: purchases, raw materials, $16,092.25; freight in, $146.25.

July 3

14. Received invoice from Brooklyn Enamel Company for manufacturing supplies, $2,218.60, voucher No. 7.

15. Sold a machine which cost $1200, and on which a reserve for depreciation of $675 had been created, for $475. Make the necessary entry in the cash receipts journal and entries in the general journal, charging the loss to Surplus account.

July 5

16. Made shipment on consignment to Howard & Co. The cost of the merchandise shipped was $4,000. Make entry in the general journal crediting Finished Goods account.

17. Paid from petty cash, freight on consigned shipment to Howard & Company, $15.

18. Received invoice from Packard Motor Co. for $375, repairs to auto truck. Issued voucher No. 8, debiting Auto Expense account.

July 6

19. Sold:

C.O.D.(Dover Electric Co.), $200, terms net. Debit C.O.D. account.
Emerson Manufacturing Co., $4,241.60.

20. Received check in payment of C.O.D. shipment, Dover Electric Co., $200.

21. Received invoice from N. Y. Telephone Co., $62.90. Voucher No. 9.

July 7

22. Received note from Thomson Electric Co., dated July 5, due in 60 days with interest at 6%, for $8,000 in payment of invoice of June 4. Make entry in the Notes Receivable register.

July 8

23. Issued voucher No. 10, payable to the order of Payroll, for weekly payroll, distributed as follows:

Direct Labor	$2,250.50
Indirect Labor	709.40
Auto Expense (chauffeur's wages)	100.00
Shipping and Packing Dept	50.00
Office Salaries	400.00
Total	$3,509.90

24. Paid voucher No. 10.

July 9

25. Received invoice from Trenton Steel Co. for $24,680.72, distributed on voucher No. 11 as follows: purchases, raw material, $24,510.10; freight in, $170.62.

26. Received from bank notice of protest of the check of Dover Electric Co. The amount of the check is $200 and the protest fees are $2.25, making a total of $202.25. Issued voucher No. 12 in favor of Citizens National Bank for $202.25, debiting Protested Checks and Notes account. Make entry in the journal debiting Dover Electric Co. and crediting Protested Checks and Notes, $202.25.

27. Received a shipment on consignment from Collins Manufacturing Co. Make no entry.

28. Paid out of petty cash, freight on consigned shipment received from Collins Manufacturing Co., $10.

July 10

29. Note for $3,000, in favor of Chicago Steel Co., due this day, is presented for payment. Issued voucher No. 13 for $3,030, principal and interest. (*Instructions: Use only one line for recording this transaction. Write the names of the two accounts to be debited in one space in the "Other Accounts" column.*)

30. Paid vouchers as follows:

No. 1	Bell Steel Co., $5,662.45 less 2%
No. 2	Excelsior Enamel Co., $2,200 less 3%
No. 12	Citizens National Bank, $202.25
No. 13	Chicago Steel Co., $3,030.

31. Discounted note of Thomson Electric Co. dated July 5. due in 60 days with interest at 6%. The amount of the note is $8,000; the discount rate is 6%.

32. Sold:

Alford & Sons	$1,567.72
Gibbs & Gibbs	3,215.68

July 12

33. Returned to Brooklyn Enamel Co. defective manufacturing supplies, $270.90. Issued voucher charge (V.C.) No. 1. (*Instructions.—Enter the amount in the "Amount" and in the "Purchases, Manufacturing Supplies" columns. In the absence of red ink, encircle the amounts in both columns to indicate that this item is a deduction from, and not an addition to, the other items recorded in the two columns.*)

34. Received invoice from Pierce-Arrow Co. for $3,000, covering purchase of auto truck, $4,000, less allowance of $1,000 for old truck taken in trade. The terms are $600 cash and notes maturing in three months for the balance. The auto truck that was given in trade cost $4,000; the reserve for depreciation created on this truck was $3,250. Make the necessary entries in the general journal, closing the reserve into the Asset account and transferring the difference between the book value and the amount realized on the trade-in to Surplus account.

35. Issued voucher No. 14 for $600 and No. 15 for $2400, both in favor of Pierce-Arrow Company, to be debited to the Auto Trucks account.

36. Paid voucher No. 14, Pierce-Arrow Co., $600, by check.

37. Issued notes in favor of Pierce-Arrow Co. in payment of voucher No. 15, as follows:

July 12, due in 1 month with interest @ 6%	$800
12, due in 2 months with interest @ 6%	800
12, due in 3 months with interest @ 6%	800

Record the notes given in payment of voucher No. 15 in the Notes Payable journal.

38. Received invoice for $850 from Clark & Black for legal services and advances made by them in connection with the incorporation of the company. Issued voucher No. 16, debiting Organization Expense.

39. Received checks as follows:

A. L. Andrews, in full of account, $3,500 less 5%.
Burns & Co., invoice June 18, $8,000 less 5%.
Miller & Sons, invoice June 16, $12,500 less 5%.
Gibbs & Gibbs, invoice June 26, $6,000 less 5%.

40. Received check from Connell Trading Co., invoice June 24, $3,000 less 5%, less freight, $40.60. Enter freight allowance in the general journal.

41. Received non-interest-bearing note dated July 10, due in two months, for $4,200 from St. Paul Electric Co. in payment of invoice dated May 25; also check for $52.50 covering interest at 6% for 2½ months from the due date of the invoice, June 25, to the maturity date of the note given in payment, September 10. Make the necessary entry in the Notes Receivable register and in the cash receipts journal.

42. Received note dated July 11, due in 30 days with interest at 6%, from Watt Manufacturing Co. for $5,500 in payment of invoice of June 10.

43. Alford & Son return defective merchandise, $215.60. Enter in Sales Returns and Allowances journal.

July 15

44. Discounted at bank note of St. Paul Electric Co., dated July 10, due in two months. The amount of the note is $4,200; the discount rate is 6%. Record the amount of the discount in the discount column; earmark the amount, using a cross as a symbol to distinguish it from sales discount.

45. Received collection notice from the bank of the payment by the Chicago Electric Co. of note, $3,000, and interest, $15, due this day.

46. Received invoice from Power & Light Co. for $292.60. Voucher No. 17.

47. Issued voucher No. 18 for payroll for the week ended July 13, distributed as follows:

Direct Labor	$2,375.80
Indirect Labor	725.75
Auto Expense	100.00
Shipping and Packing Expense	50.00
Office Salaries	400.00
Total	$3,651.55

48. Received invoice from Standard Oil Co. $860.20, covering: linseed oil (manufacturing supplies, $200); furnace oil (light, heat, and power, $498.20), gasoline (auto expense, $162). Voucher No. 19.

49. Paid:

Voucher No. 18, Payroll	$3,651.55
Voucher No. 9, N. Y. Telephone Co	62.90

50. Sold Forbes & Co. merchandise received on consignment from Collins Manufacturing Co. Enter in "Consignments In" column, in the sales journal, $2,500.

51. Sold Burnett Manufacturing Co., $3,712.80.

52. Sent Gibbs & Gibbs credit memo. for $75, covering allowance of their claim for damaged pipe.

53. Sold C.O.D., to A. L. Hughes, sight draft with bill of lading attached, $848.30. Make entry in sales journal. Left draft with the bank for collection. Make no entry.

July 16

54. Received invoice from Dennison Manufacturing Co., $270, covering shipping and packing department supplies. Voucher No. 20.

55. Received invoice from N. Y. Machinery Co., $8,400, covering machinery purchased, subject to draft payable in 30 days, with interest at 6%. Voucher No. 21.

56. Accepted 30-day draft of N. Y. Machinery Co. in payment of voucher No. 21. Enter in Notes Payable register.

57. Paid from petty cash:

For manufacturing supplies	$10.80
For cleaning office	5.00
For office supplies	5.40

July 17

58. Received notice from bank; of collection on sight draft on A. L. Hughes, $848.30. Credit C.O.D. account.

59. The bank also sends notice of the collection of note of Dennis Manufacturing Co., $2,400 with interest for one month, due to-day.

July 18

60. Issued voucher No. 22 in favor of Hartford Insurance Co., $480, covering insurance on stock and machinery, $468, and insurance on consigned shipment to Howard & Co., $12. Debit Insurance Unexpired, $468, and Consignments Outward, Howard & Co., $12, in one space in the "Other Accounts" column.

July 20

61. Sold to Alford & Sons, merchandise, $3,175.90.

62. Paid voucher No. 16, Clark & Black, $850.

July 22

63. Received installment of 30% due this day on stock subscriptions from subscribers, as follows:

L. Lewis 30%	$1,200
N. Nathan 30%	3,000
O. Orlando 30%	3,000
M. Martin in full	3,600

64. M. Martin, who has paid for his subscription in full, requests that certificate of stock be issued to him. Issued preferred stock certificate No. 4 for 40 shares to M. Martin. Make entry in the general journal.

65. Payroll for the week ended July 20, distributed on voucher No. 23 as follows:

Direct Labor	$2,325.20
Indirect Labor	726.54
Auto Expense	50.00
Shipping and Packing Dept	50.00
Office Salaries	400.00
	$3,551.74

66. Paid voucher No. 23.

67. Received invoice from Machinery Repairs Co., $175, covering repairs to machinery, voucher No. 24.

July 25

68. Canceled voucher No. 6 in favor of Pittsburgh Steel Co., $16,238.50, in anticipation of payment of $10,000 to be made on account. Issued in its stead voucher No. 25 for $6,238.50 and voucher No. 26 for $10,000. Record vouchers 25

and 26, debiting Vouchers Payable account. Indicate, on the line with voucher No. 6, cancellation of that voucher.

69. Sold:

Forbes & Co	$14,632.50
Miller & Son	8,775.75
Emerson Mfg. Co	4,215.20

70. Received check, $135, from the Receiver in Bankruptcy for the Boston Contracting Co., covering final dividend payment. The balance of the account of the Boston Contracting Co. is a loss and should be written off by journal entry.

71. Paid vouchers as follows:

No. 20. Dennison Mfg. Co., $270 less 2%
19. Standard Oil Co., $860.20 less 2%
7. Brooklyn Enamel Co., $2,218.60 less voucher charge No. 1, $270.90. less 3% discount
17. Power & Light Co., $292.60 net
22. Hartford Insurance Co., $480 net
26. Pittsburgh Steel Co., $10,000 less 2%

July 27

72. Issued voucher No. 27, in favor of *Electrical World*, $600, covering six months' advertising, paid in advance. In the "Other Accounts" column debit Advertising Prepaid.

73. Received invoice from Wool Stationery Co., $200, covering stationery and printed matter, $160, and office supplies, $40. Voucher No. 28.

74. Forbes & Co. returned merchandise, $720.90.

75. Paid from petty cash, $7.50, expressage on material returned by Forbes & Co.

76. Received checks as follows:

Alford & Son, invoice, $1,352.12, less 5%
Burns & Co., invoice, $6,177.80, less 5%

July 29

77. Distributed payroll for the week ended July 27 on voucher No. 29, as follows:

Direct Labor	$2,306.62
Indirect Labor	805.36
Auto Expense	50.00
Shipping & Packing Expense	50.00
Office Salaries	400.00
	$3,611.98

78. Received invoice from Atlas Steel Co., $10,602.90, covering raw materials purchased, $10,530.30, freight in, $72.60. Voucher No. 30.

79. Received checks as follows:

Emerson Manufacturing Co. invoice, $4,241.60, less 5%
Forbes & Co. invoice, $2,500, net

80. Paid voucher No. 11, Trenton Steel Co., $24,680.72, less 2% on $24,510.10.

81. Drew check in payment of voucher No. 29, Payroll, $3,611.98.

July 30

82. Sold:

Gibbs & Gibbs	$15,880.25
Thomson Electric Co	6,217.66
A. L. Andrews	9,780.50

83. Paid from petty cash:

For postage stamps	$25.00
For ferrying auto	12.25
For carfares	3.60

84. Received check from Howard & Co. $4,320, covering proceeds on consigned merchandise sold. Enter in cash receipts journal.

July 31

85. The monthly payroll, distributed on voucher No. 31, follows:

Salaries of salesmen	$1,200
Office salaries	725
Officers' salaries	3,250
	$5,175

86. Issued voucher No. 32 in favor of petty cash, distributed as follows:

Purchases—Manufacturing Supplies	$10.80
Auto Expense	12.25
Freight Out	7.50
Office Supplies	5.40
Postage	25.00
General Expense	8.60
Consignments Out (Howard & Co.)	15.00
Consignments In (Collins Mfg. Co.)	10.00
	$94.55

(Instructions.—Record "Consignments Out" and "Consignments In" in one space in the "Other Accounts" column.)

87. Voucher No. 33 was issued in favor of J. Smith, $162.50, to reimburse him for traveling expenses.

88. Rendered account sales to Collins Mfg. Co., as follows:

We have sold for your account		$2,500
Charges:		
Commission, 5%	125	
Storage Rent	25	
Freight charges advanced	10	160
Check herewith		$2,340

Make entry in the general journal covering commission and rent. The freight item of $10 has already been recorded in the voucher register by a debit entry to the Consignments In account. Voucher No. 34 was issued in favor of Collins Mfg. Co., $2,340.

89. Drew checks in payment of vouchers as follows:

No. 32. Petty cash	$ 94.55
33. A. Smith	162.50
31. Payroll	5175.00
34. Collins Mfg. Co	2340.00

Preparing Books for Closing on July 31, 19—

(a) Foot all journals and make a summary entry in each journal.

(b) Balance the cash journal.

(c) Post from the journals in the following order: sales journal, sales returns and allowance journal, cash receipts and cash payments journals, notes receivable and notes payable journals, general journal, and voucher register. Make all posting from the voucher register as of July 31, 19—.

(d) Prepare a Trial Balance on a working sheet form, as illustrated on pages 138–139.

(e) Prepare Schedules and number them as follows:

1. Accounts Receivable per accounts receivable ledger.
2. Subscribers to Preferred Capital Stock per subscribers' ledger.
3. Vouchers Payable per list of unpaid vouchers, as shown in the voucher register.

(f) Make entries and number them in the general journal to record adjustments as follows:

Accrual Adjustments

1. Accrued interest receivable on note of Watt Mfg. Co., $5500 from July 11 to July 31, (20 days) @ 6%.. $16.33

2. Accrued interest payable on notes, and bond and mortgage payable is as follows:
   On Notes:
   Pierce Arrow Co., $2400 for 19 days @ 6%..... $7.60
   N. Y. Machinery Co., $8400 for 21 days @ 6%.. 29.60
   On bond and mortgage $50,000 for 1 month @ 6% 250.00
   Total accrued interest payable..... 287.20

3. Taxes accrued for the month of July..... 100.00

4. Salaries and Wages accrued for the half week ended July 31, 19— are as follows:
   Direct Labor $1,162.60
   Indirect Labor 363.27
   Auto Expense 25.00
   Shipping and Packing Expense 25.00
   Office Salaries 200.00
   Total salaries and wages accrued.....$1,775.87

Deferred Charges to Expense Adjustments

5. The expired portion of insurance is $\frac{1}{12}$ of $1668 = $139, which is to be distributed as follows:
   Insurance (manufacturing) $110.00
   Insurance (administrative) 29.00
   Total $139.00

6. Advertising consumed is $\frac{1}{6}$ of $600..... $100.00

7. Organization expenses are to be written off over a period of 3 years. The amount to be written off is $\frac{1}{3}$ of $850. = $283.33 ÷ 12..... $23.61

8. The prepaid interest on notes discounted is as follows:
   Paid $39.90 for 57 days from July 15 to Sept. 10.
   The prepaid amount at July 31 is $\frac{41}{57}$ of $39.90... 28.70

Depreciation and Valuation Reserves Adjustments

(Note:—All calculations are to be made on closing balances.)

9. Depreciation on factory building @ 4% per annum
   $50,000 × 4% = $2000 ÷ 12 ..... 166.66

10. Depreciation on machinery and equipment at 10% $67,860 × 10% = $6786 ÷ 12 ..... 565.50

11. Depreciation on office equipment @ 10%; $2436 × 10% = $243.60 ÷ 12 ..... 20.30

12. Depreciation on auto trucks @ 25%; $16,000 × 25% = $4000 ÷ 12 ..... 333.33

13. Provision for bad debts, 1/10 of 1% of net sales, $84,442.41 ..... 84.44

Inventory Adjustments

(Note:—There was no inventory of manufacturing supplies or shipping and packing supplies at the beginning, July 1, 19—.)

14. Record manufacturing supplies inventory, July 31... $675.00

15. Record shipping and packing supplies inventory, July 31. . ..... 80.00

16. Close the beginning raw materials inventory into the Raw Materials Purchases account.

17. Record the closing raw materials inventory.....22,750.40

18. Close the beginning goods in process inventory into Cost of Goods Manufactured.

19. Record the closing goods in process inventory.....14,240.50

20. Close the beginning finished goods inventory into Cost of Goods Sold.

21. Record the closing finished goods inventory.....13,720.00

(g) Post all adjusting entries to the Working Sheet.
(h) Complete the Working Sheet.
(i) Prepare:
    1. Cost of Goods Sold schedule, July 31.
    2. Condensed Statement of Income and Profit and Loss for the month ended July 31, 19—.
    3. Balance Sheet, July 31, 19—.
(j) Make closing entries in the journal.
(k) Post all journal entries to the ledger.
(l) Close the ledger.
(m) Reverse accrual entries numbered 1, 2, 3, and 4.

Chapter XXVIII

CONSIGNMENTS

Consignments defined.—Not all shipments of merchandise represent sales of merchandise. Some shipments of merchandise are made with the understanding that the goods are to be sold by the receiver for the account of the owner or shipper. A shipment of merchandise which is to be sold for the account of the owner or shipper is known as a *consignment.*

Purpose of consignments.—The purpose of consignments is to make sales in cases when sales by the usual sales-contract method either cannot be made or, for some reason, are undesirable. Thus, for example, a merchant is not likely to buy on a large scale commodities which are perishable or whose price or supply is subject to violent fluctuation; nor is a merchant inclined to buy merchandise in common use unless that particular brand is known to the trade or the consumer. In order to make sales of such merchandise, it is not uncommon in some fields of business to establish agencies to which shipments are made on consignments.

Parties to consignments.—There are two parties to a consignment of merchandise, namely, the shipper and the receiver. The owner or shipper is known as the *consignor;* the receiver is known as the *consignee.* The consignor is the principal, the consignee is the agent, of a consignment. The legal relationship is one of bailment.

It is customary for the parties to a consignment to have a written agreement. The agreement provides, among other things, for the method of reporting and the manner in which payment is to be made for consigned merchandise sold.

Classes of consignments.—There are two classes of consignments, namely, consignments inward and consignments

outward. A *consignment inward* is a receipt of merchandise from another. A *consignment outward* is a shipment of merchandise to another.

Thus, a business may both receive and ship merchandise on consignment, in which case it would be both a consignee and a consignor.

Bookkeeping practices and methods applicable to both classes of consignments.—Ownership of merchandise shipped on consignment remains in the consignor until sold by the consignee. Therefore, the consignee is not accountable for the money value of the consignment until he sells it. In the meantime, he is accountable to the consignor for the merchandise. For that reason, it is the practice of both the consignor and the consignee to keep a stock record of merchandise shipped, or received on consignment.

Recording consignments inward.—Ordinarily, no entry, other than the stock record, is made by the consignee on receipt of a consignment of merchandise. When sales of consigned merchandise are made, the consignee credits the Consignments Inward account. A separate Consignments Inward account is kept for each consignor. The function of this account is to show the net amount due the consignor for consigned merchandise sold. Accordingly, the account is credited with the sales of consigned merchandise, and is debited with advances made by the consignee for the account of the consignor and other items such as commissions, storage, and rent, as provided for in the agreement.

The following account, in skeleton form, will serve to illustrate entries usually made in the Consignments Inward account:

Consignments Inward

Debit:	Credit:
With advances, such as payment for freight, cartage, etc., made for the account of the consignor. With expenses and charges, such as storage, rent, insurance, and commissions.	With sales.

The final balance in the account, if any, should be a credit. It represents the net amount owing to the consignor for consigned merchandise sold. The account is closed when a report is rendered to the consignor.

Illustration.—For the purpose of illustrating the method of recording consignments inward, consider the following memorandum invoice of a consignment of pipes by the United States Pipe Company to the Electric Supply Company, the consignee:

MEMORANDUM INVOICE

Newark, N. J., Feb. 1, 19-

ELECTRIC SUPPLY COMPANY

SEATTLE, WASHINGTON

To **UNITED STATES PIPE COMPANY** Dr.

155 River St.

We have shipped to you on consignment:

15000 ft.	½"	RIGID	STEEL	PIPE	BLACK ENAMEL
15000 ft.	½"	"	"	"	ALUMINIZED
5000 ft.	¾"	"	"	"	BLACK ENAMEL
5000 ft.	¾"	"	"	"	ALUMINIZED

Consider also the transactions of the Electric Supply Company, in connection with the consigned shipment received from the United States Pipe Company, as follows:

Feb. 12. Received shipment.

12. Paid freight and handling charges, $35.

15. Sold to Electric Contracting Company on account, $1,525.

15. Paid cartage on shipment to Electric Contracting Company, $10.

20. Sold to Seattle Light & Power Company on account, $1,525.

20. Paid cartage on shipment to Seattle Light & Power Company, $15.

28. Rendered an account sales for $2,837.50, the net proceeds after deducting expenses and 5% commission.

The cash transactions are recorded in the Cash Journal as follows:

Cash Payments Journal

Date	*F.*	*Accounts Dr.*	*Explanation*	*Net Cash*	*Accounts Payable*	*Purchase Discount*	*General Ledger*
19—							
Feb. 12		Consignments In U. S. Pipe Co.	Freight	35 00			35 00
15		Consignments In U. S. Pipe Co.	Cartage	10 00			10 00
20		Consignments In U. S. Pipe Co.	Cartage	15 00			15 00
28		Consignments In U. S. Pipe Co.	Net Proceeds	2,837 50			2,837 50

Sales transactions are recorded in the Sales Journal as follows:

Sales Journal

Date	*F.*		*Accounts Receivable*	*Sales*	*Consignments In (U. S. Pipe Co.)*
19—					
Feb. 15		Electric Contracting Co.	1,525 00		1,525 00
		Seattle Light & Power Co.	1,525 00		1,525 00

The commission earned is recorded in the general journal as follows:

Journal, February 29, 19—

	Consignments Inward—U. S. Pipe Company.....	152 50		
	Commissions Earned.....			152 50
	To record commission, 5% on $3,050 of consigned merchandise made for the account of the United States Pipe Company.			

The Consignments Inward account, after all postings have been made, would appear as follows:

Consignments Inward—U. S. Pipe Co.

19—						19—					
Feb.	12	Freight and handling	C.	35	00	Feb.	28	Sales	S.J.	3,050	00
	15	Cartage	C.	10	00						
	20	Cartage	C.	15	00						
	28	Commission	J.	152	50						
	28	U. S. Pipe Co.	J.	2,837	50						
				3,050	00					3,050	00

As a rule, consignees of manufactured merchandise are required by agreement to make monthly reports to the consignor of consigned merchandise sold, and to submit an inventory of consigned merchandise in stock. The statement prepared by the consignee of consigned merchandise sold is known as an Account Sales. The Account Sales, among other things, shows the amount realized on consigned merchandise sold, and deductions made by the consignee for advances and commissions.

The legal relationship existing between the consignee and the consignor is one of bailment, as explained on page 452. The consignee, therefore, must account to the consignor for all merchandise which he has received to be sold on commission. In many instances, the agent (consignee) may receive perishable merchandise, such as market garden produce, on consignment. Much of the produce sold in large cities is handled in this way. Unless sales are made very promptly, some of this produce will become unfit for sale. Obviously, such merchandise is not to be returned to the consignor. In the case of sporting goods, musical instruments, and the like, any merchandise which cannot be sold is eventually returned by the agent to his principal.

In the preparation of the Account Sales, the agent makes a report to the consignor on all merchandise which was unfit for sale or which, for any reason, remained unsold. This is illustrated on the form shown on page 462.

The Account Sales rendered by the Electric Supply Company to the United States Pipe Company follows:

ACCOUNT SALES

Seattle, Wash., Feb. 28, 19-

ELECTRIC SUPPLY COMPANY

Report of merchandise sold for the account of

UNITED STATES PIPE COMPANY
NEWARK, N. J.

19-				
Feb.	15	15000 ft.1/2" Rigid Steel Pipe Aluminized @ 75 per M		1,125 00
	15	5000 ft.3/4" " " " " @ 80 " "		400 00
	20	15000 ft.1/2" " " " Black Enamel @ 75 " "		1,125 00
	20	5000 ft.3/4" " " " " " @ 80 " "		400 00
		Total Sales		3,050 00
		Charges:		
Feb.	12	Freight and handling	$35.00	
	15	Cartage	10.00	
	20	Cartage	15.00	
	28	Commission, 5%	152.50	212 50
		Net proceeds per check attached		2,837 50
		E. & O. E.		

Treatment of consigned merchandise in stock at inventory time.—In taking an inventory, the consignee must be careful not to include as part of the inventory of the consignee any merchandise held on consignment, as such merchandise belongs to the shipper and not to the consignee. It is the practice, therefore, in taking an inventory, to make a separate inventory of consigned merchandise in stock. A copy of this inventory is sent to the consignor. In the case illustrated, the entire shipment received was sold by the Electric Supply Company; hence, there was no inventory at the close of the month to be reported to the consignor.

Recording consignments outward.—When a shipment of merchandise is made on consignment, it is customary for the consignor to send to the consignee a memorandum invoice and to keep a separate stock record of merchandise with each consignee. Any expenses paid for the account of a consigned shipment are debited by the consignor to a Consignments Outward account. A separate Consignments Outward account is kept for each consignee. The function of this account is to show the net profit or loss on a consignment outward.

Accordingly, the account is debited with the cost of consigned merchandise sold and with the expenses incurred in connection with the consignment; it is credited for sales of consigned merchandise made by the consignee.

The following account, in skeleton form, will show the entries made in a Consignments Outward account, where the above-mentioned procedure is followed:

Consignments Outward

Debit:	Credit:
With expenses incurred. With the cost of the consigned merchandise sold.	With the proceeds of sales as reported by the consignee.

The balance in this account may be a debit or a credit. If a debit, it represents the loss; if a credit, the profit on the consignment outward.

Illustration.—For the purpose of illustrating the method of recording consignments outward, the shipment made by the United States Pipe Company to the Electric Supply Company may be considered. The transactions of the United States Pipe Company were as follows:

Feb. 1. Made shipment on consignment to Electric Supply Co. as per memorandum invoice. The cost of the merchandise shipped was $2,500.

1. Paid insurance on shipment, $30.

Mar. 5. Received account sales from Electric Supply Co., and check for $2,837.50, representing the net proceeds.

The cost of the merchandise shipped on consignment is recorded in the General Journal as follows:

General Journal, February 1, 19—

		Consignments Outward—Electric Supply Co.....		2,500	00	
		Purchases.....				2,500	00
		To record the cost value of shipment of merchandise on consignment to Electric Supply Company.				

The payment for insurance is recorded in the Cash Payments Journal as follows:

Cash Payments Journal

Date	*F.*	*Accounts Dr.*	*Explanation*	*Net Cash*	*Accounts Payable*	*Purchase Discount*	*General Ledger*
19—							
Feb. 1		Consignments Out	E.S. Co. Insurance	30 00			30 00

The check for $2,837.50, representing the net proceeds as shown on the account sales when received, would be recorded in the Cash Receipts Journal as follows:

Cash Receipts Journal

Date	*F.*	*Accounts Dr.*	*Explanation*	*Net Cash*	*Accounts Receivable*	*Sales Discount*	*General Ledger*
19— Mar. 5		Consignments Out	E.S. Company	2,837 50			2,837 50

After posting, the Consignments Outward account would appear as follows:

Consignments Outward—Electric Supply Company

19— Feb.	1	Cost	J.	2,500	00	19— Mar.	5	Cash Proceeds	C.	2,837	50
	1	Expense—Insurance	C.	30	00						

The account, it will be seen, shows a credit balance of $307.50, which represents the profit on the consignment to the Electric Supply Company. In closing the ledger, this balance is transferred to the Profit and Loss account.

Treatment of merchandise out on consignment in taking inventory.—Since merchandise shipped on consignment belongs to the consignor, it follows that any merchandise out on consignment is part of the inventory of the consignor and should be included in the inventory, as shown on the Balance Sheet.

Review Questions

1. What is meant by a "consignment"?

2. Why are goods sometimes shipped to another part of the country to be sold on consignment?

3. Define: consignor, consignee.

4. What is meant by a consignment inward? a consignment outward?

5. What is the function of the Consignments Inward account? On whose books is it kept?

6. Explain the function of the Consignments Outward account. On whose books is it kept?

7. What name is given to the formal notice of shipment sent by the consignor to the consignee?

8. Explain what is meant by an "account sales." What information does it contain?

Exercises

1. On August 20, 19—, James Andrews, Batavia, N. Y., shipped to the Central Commission Co., Buffalo, N. Y., 400 baskets of peaches to be sold on commission. The Central Commission Co., received the peaches on August 21, and paid freight charges of $11.90.

Sales were made for cash as follows: August 23, 150 baskets at $1.10; August 24, 200 baskets at $1.12; August 27, 50 baskets at $1.05. An account sales was rendered to Andrews on August 28, the charge for commission being 10%. A check for the net proceeds was inclosed.

Show, in journal form, all entries to be made on the books of the Central Commission Company.

2. On October 25, 19—, William Bates, Rochester, N. Y., shipped to J. R. Miller, New York City, 300 barrels of apples to be sold on commission. The apples had cost Bates $4.00 per barrel. He prepaid the freight, $32.10, and paid insurance charges, $4.90.

The following account sales was received from Miller on November 18, accompanied by a check for the net proceeds:

ACCOUNT SALES

New York, November 16, 19-

Merchandise sold for account of

William Bates
Rochester, N. Y.

By
J. R. MILLER
COMMISSION MERCHANT
45 Washington St.

		Received				
19-						
Oct.	28	300 bbl. Apples				
		Sales				
Nov.	4	100 bbl. Apples	$6.25	625 00		
	9	125 " "	6.70	837 50		
	12	50 " "	6.50	325 00		
	15	20 " "	6.20	124 00		
		5 " unfit for sale			1,911	50
		Charges				
Oct.	28	Cartage		27 50		
	28	Insurance		5 40		
Nov.	16	Storage charges paid		9 00		
	16	Commission, 5%		95 58	137	48
	16	Net proceeds by check herewith			1,774	02
		E. & O. E.				

Prepare, in journal form:

(a) Entries to be made on the books of William Bates. Close the Consignment-Out account into Profit and Loss.

(b) Entries to be made on the books of J. R. Miller, assuming that all sales were made for cash.

3. D. C. Simpson, Bangor, Me., shipped 1000 bushels of potatoes to John O'Neil, Boston, Mass., on October 15, 19—, to be sold on commission. The potatoes had cost Mr. Simpson $1.90 per bushel. He insured the consignment in transit at a cost of $7.30.

The potatoes were received in Boston on October 18. O'Neil paid freight charges, $16.75, and cartage to warehouse, $22.00. The remaining transactions affecting the consignment were as follows:

Oct. 21. Sold 250 bu. at $2.50, cash.
24. Sold 300 bu. at $2.45, cash.
25. O'Neil paid a sight draft for $900 drawn by Simpson on account of the consignment.
27. Sold 350 bu. at $2.60, cash.
30. Sold the remainder of the potatoes at $2.40. (All sales were by weight, and there was found to be a shrinkage of 12 bushels by weight on the entire consignment.)
31. An account sales was prepared by O'Neil. He paid storage, $25, and charged a commission of 5%. A check was remitted for the net proceeds.

Prepare:
(a) Entries, in journal form, on the books of the consignee.
(b) The account sales.
(c) Journal entries on the books of the consignor.

4. The following transactions took place in connection with a consignment:

Oct. 10, 19— W. J. Moore, Rochester, N. Y. shipped to E. C. Collins, Philadelphia, 1000 bushels of potatoes to be sold on commission. The potatoes cost Moore $1.60 per bushel. Insurance was prepaid, $12.
15. Collins received the potatoes and paid freight, $45. The potatoes were stored in a warehouse.
20. Collins sold 600 bushels at $2.40, cash.
25. Collins paid a draft, drawn at sight by Moore, for $500 on account of the consignment.
28. The remainder of the potatoes were sold at $2.50, cash. Collins paid storage at two cents per bushel, and rendered an account sales, charging commission at 5%. The proceeds were remitted by a New

York draft, the charge for exchange being $.75.

(a) Make journal entries on the books of the consignee.

(b) Make journal entries on the books of the consignor.

(c) Prepare the account sales.

(d) Write the New York draft and the check used to purchase it, supplying any necessary details.

Chapter XXIX

SINGLE ENTRY

Origin of bookkeeping.—Modern bookkeeping had its origin in the keeping of accounts with customers, creditors, and the proprietor. At one time, no accounts other than personal accounts, as represented by customers, creditors, and the proprietor's accounts, were kept in the ledger. These three groups of accounts were the only asset, liability, and capital accounts kept on the books. Because changes in these accounts, that is, increases and decreases, were recorded by one entry, this system became known as the *single entry* system of bookkeeping. An increase in a customer's account, for example, was recorded by a single entry debiting the customer's account without making a corresponding credit, as is done in double entry bookkeeping.

Changes in the method of doing business brought about changes in the methods of bookkeeping. Thus, impersonal accounts such as notes payable, notes receivable, property, expense, and merchandise accounts were gradually introduced. With the introduction of impersonal accounts, a double entry was made to record some transactions and a single entry was made to record others, resulting in an incomplete double entry system which, in practice, is referred to as single entry.

The term *single entry* is applied to-day to any system of bookkeeping which does not permit of the taking of a Trial Balance.

Recording transactions by the single entry system.—Single entry, like double entry bookkeeping, requires the use of at least two books, namely, a journal and a ledger. Other books, such as the cash journal, sales journal, and purchase journal may be employed.

For the purpose of illustrating the method of recording transactions by the single entry system where the journal, cash journal, and general ledger are employed, the following transactions should be considered:

Jan. 2, 19—. A. Reid begins business, investing $10,000 cash and furniture consisting of desk and chair, $50.

2. Paid Jay Realty Co. $200 rent for the month.

4. Bought of Tower Mfg. Co., on account, stationery, $50.

4. Bought of Bell & Co. on account, merchandise as follows:

625 yds. Serge	@1.60	$1,000	
1000 yds. Flannel	@1.20	1,200	
1000 yds. Fancy Suitings	@1.30	1,300	
1000 yds. Cloakings	@1.50	1,500	$5,000

5. Bought of Baldwin Mfg. Co. on account, merchandise as follows:

1500 yds. Broadcloth	@3.20	$4,800	
680 yds. Flannel	@1.20	816	
680 yds. Fancy Suitings	@1.30	884	$6,500

9. Paid salaries, $45.

10. Sold to Cann & Co. on account

500 yds. Broadcloth	@4.00	$2,000

12. Sold to J. Link, on account

1000 yds. Flannel	@1.50	$1,500

14. Paid Bell & Co. bill of January 4, 19—, less 7%.

16. Paid salaries, $45.

20. Received check from Cann & Co., bill of Jan. 10, less 5%.

20. Purchased safe for cash, $75.

Single entry journal.—Under the pure single entry system, accounts are kept with persons only. It follows that, where a special journal is used for recording cash receipts and payments, the function of the general journal is to record debit and credit entries that are to be made in personal accounts for items other than cash receipts and payments.

The technique of recording transactions in the general journal is somewhat different from that of recording transactions under the double entry system. Under the double entry system, the first represents the debit and the second the credit money column, whereas under the single entry system, the two money columns have no such special significance.

Accordingly, in recording transactions in the general journal under the single entry system, it is customary to use the first money column for items and the second money column for amounts to be posted. It is also customary to indicate whether the account is to be debited or credited, by writing the abbreviation *Dr.* or *Cr.* to the left of the first money column on a line with the name and the amount.

The entries as they would appear in the journal of A. Reid, recorded in single entry style, follow:

Journal, January 2, 19—

A. Reid this day began business as a jobber, investing $10,000 cash and $50 in furniture.			
A. Reid ..... Cr.			10,050 00
To record investment.			
—4—			
Tower Mfg. Company ..... Cr.			50 00
To record the purchase of stationery.			
—4—			
Bell & Company ..... Cr.			5,000 00
To record the purchase of merchandise as follows:			
625 yds. Serge ..... @$1.60	1,000 00		
1000 yds. Flannel ..... @ 1.20	1,200 00		
1000 yds. Suitings ..... @ 1.30	1,300 00		
1000 yds. Cloakings ..... @ 1.50	1,500 00		
—5—			
Baldwin Mfg. Company ..... Cr.			6,500 00
To record the purchase of merchandise as follows:			
1500 yds. Broadcloth ..... @$3.20	4,800 00		
680 yds. Flannel ..... @ 1.20	816 00		
680 yds. Suitings ..... @ 1.30	884 00		
—10—			
Cann & Company ..... Dr.			2,000 00
To record the sale of			
500 yds. Broadcloth ..... @$4.00	2,000 00		
—12—			
J. Link ..... Dr.			1,500 00
To record the sale of			
1000 yds. Flannel ..... @$1.50	1,500 00		
Total			25,100 00

Summary of Postings

Items posted:	
Credits	$21,600
Debits	3,500
Items not posted, none.	
	$25,100

Cash Receipts Journal, January, 19—

Date	*F.*	*Accounts Cr.*	*Explanation*	*Net Cash*	*Sales Discount*
19—					
Jan. 2		Balance	A. Reid, Investment	10,000 00	
20		Cann & Co.	Jan. 10, Less 5%	1,900 00	100 00
		Total Receipts		11,900 00	100 00
		Summary:			
		Items Posted (Credits)		2,000 00	
		Items Not Posted		10,000 00	
				12,000 00	

Cash Payments Journal, January, 19—

Date	*F.*	*Accounts Dr.*	*Explanation*	*Net Cash*	*Purchase Discount*
19—					
Jan. 2		Expense	Rent-Jay Realty Co.	200 00	
9		Expense	Salaries for Week	45 00	
14		Bell & Co.	Invoice Jan. 4, Less 7%	4,650 00	350 00
16		Expense	Salaries for Week	45 00	
20		Furniture	Safe Purchased	75 00	
		Total Payments		5,015 00	
		Balance		6,885 00	
				11,900 00	350 00
		Summary:			
		Items Posted (Debits)		5,000 00	
		Items Not Posted		365 00	
				5,365 00	

Single entry cash journal.—Provision is usually made in a single entry cash journal for a net cash and a discount column, for both cash receipts and cash payments.

As in the case of double entry, so also in the case of single entry, all cash receipts are recorded in the cash receipts journal

and all cash payments are recorded in the cash payments journal. However, under the single entry system, postings are made to personal accounts only; all other items appearing on either side of the cash journal are ignored in posting. In posting, care must be taken to post both the net cash and the discount items to the personal accounts.

Single entry ledger.—Under the pure single entry system, the ledger will contain only accounts with customers, creditors, and the proprietor. The accounts, as they would appear in the ledger of A. Reid, follow:

A. Reid

						19— Jan.	2	Investment	J.	10,050	00

Tower Manufacturing Company

						19— Jan.	4		J.	50	00

Bell & Company

19— Jan.	14	Cash	C.J.	4,650	00	19— Jan.	4		J.	5,000	00
	14	Purch. Discount	C.J.	350	00						

Baldwin Manufacturing Company

						19— Jan.	5		J.	6,500	00

Cann & Company

19— Jan.	10		J.	2,000	00	19— Jan.	20	Cash	C.J.	1,900	00
							20	Sales discounts	C.J.	100	00

J. Link

19— Jan.	12		J.	1,500	00						

Proof of postings.—A single entry ledger does not permit of the taking of a Trial Balance. However, by preparing in each journal used for posting, a statement showing the total of the debit and the credit amounts posted and not posted, it is possible to prove the postings by listing the total of the debit entries and the credit entries made in each account. The difference between the debit and the credit postings, as shown by the ledger accounts, should be in agreement with the proof of postings statement. To illustrate:

A. REID

Abstract of Debits and Credits, January 31, 19—

A. Reid, Proprietor		10,050 00
Tower Manufacturing Company		50 00
Bell & Company	5,000 00	5,000 00
Baldwin Manufacturing Company		6,500 00
Cann & Company	2,000 00	2,000 00
J. Link	1,500 00	
Totals	8,500 00	23,600 00
Difference—Excess of Credits over Debits	15,100 00	
	23,600 00	23,600 00

A. REID

Proof of Postings Statement, January 31, 19—

Postings from Journal	3,500 00	21,600 00
Postings from Cash Receipts Journal		2,000 00
Postings from Cash Payments Journal	5,000 00	
Total Postings	8,500 00	23,600 00
Difference—Excess of Credits over Debits	15,100 00	
	23,600 00	23,600 00

Ascertaining the profit or loss by single entry.—The proprietor of a business whose books have been kept by single entry, ascertains the gain or loss for the period by a comparison of capital. He compares ownership at the beginning with ownership at the close of the period, and in that manner ascertains the gain or loss.

In order to arrive at the capital invested at the close, it is necessary for the proprietor to prepare a statement of assets and liabilities. Since the ledger will furnish him only with the

accounts receivable, the accounts payable, and the amount of the investment, it follows that, in the preparation of a statement of assets and liabilities, the proprietor must look to sources other than the ledger for most of the information necessary.

In the case of A. Reid, for example, whose transactions were illustrated, the procedure would be as follows:

1. An accounts receivable and accounts payable schedule would be prepared from accounts kept in the ledger. These schedules are as follows:

Accounts Receivable:		
J. Link		$1,500
Accounts Payable:		
Baldwin Mfg. Co	$6,500	
Tower Mfg. Co	50	6,550

2. *Cash.*—The Cash balance is shown in the cash journal. The amount is $6,885.

3. *Merchandise.*—A physical inventory must be taken and priced. This is found to be as follows:

625 yds. Serge	@1.60	$1,000	
680 yds. Flannel	@1.20	816	
1680 yds. Suitings	@1.30	2,184	
1000 yds. Cloakings	@1.50	1,500	
1000 yds. Broadcloth	@3.20	3,200	$8,700

4. *Furniture and fixtures.*—A physical inventory must be taken and priced. The inventory follows:

Desk and chair	$50	
Safe	75	$125

5. *Other assets.*—Other physical properties would have to be inventoried in the same manner as merchandise, and furniture and fixtures. Other assets, such as notes, would have to be listed and the total included in the statement.

6. *Other liabilities.*—All other liabilities, such as notes payable, would have to be listed and the total included in the statement.

The statement of assets and liabilities of A. Reid, showing the profit for the period, follows:

A. REID
Statement of Assets and Liabilities, Jan. 31, 19—

Assets:		
Cash	$6,885.00	
Accounts Receivable	1,500.00	
Merchandise Inventory	8,700.00	
Furniture and Fixtures	125.00	
Total Assets		$17,210.00
Liabilities:		
Accounts Payable		6,550.00
Net Worth, January 31, 19—		10,660.00
Net Worth, January 1, 19—		10,050.00
Profit for the Period		$ 610.00

Recording the profit on the books.—The entry recording the profit would appear in the journal as follows:

	A. Reid, Proprietor ..... Cr.			610	00
	To record the profit for the period ended January 31, 19—.				

Ownership at beginning.—Ownership at the beginning of the period is represented by the balance as shown in the capital account at the end of the period if, during the period, additional investments or withdrawals have been recorded in the account. It will be seen, therefore, that in the preparation of a statement of assets and liabilities for the purpose of ascertaining the profit, care must be taken to show the correct amount of ownership at the beginning.

For the purpose of illustration, consider the following example:

On January 2, S. Smith invests $5,000 cash; on January 5 he makes an additional investment of $1,000; on January 25 he draws $500. His account would appear as follows:

S. Smith, Capital

19—							19—						
Jan.	25		C.	500	00		Jan.	2		C.	5,000	00
								5		C.	1,000	00

In the preparation of a statement of assets and liabilities for the purpose of ascertaining the profit, the balance of $5,500 at the end of the period, Jan. 31, 19—, is treated as the owner-

ship at the beginning of the period. This may be shown in statement form as follows:

Ownership at beginning as adjusted		$5,500
or		
Ownership at beginning, January 1	$5,000	
Add, additional investment	1,000	
Total	6,000	
Less—Drawings	500	
Ownership at beginning as adjusted		$5,500

Changing from single to double entry.—The fundamental equation upon which double entry bookkeeping is based, namely

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

requires that accounts be kept in the ledger which will record the assets, liabilities, and capital of a business.

A single entry ledger contains only the accounts with customers, creditors, and the proprietor. Therefore, it will be seen that, to convert such a ledger to a double entry ledger, it will be necessary to open accounts for such assets as the business may own other than accounts receivable, which already appear in the ledger; and such liabilities as the business may have, other than accounts payable, which likewise appear in the ledger. Moreover, the proprietor's account will require adjustment for the amount of the profit or loss for the period.

Thus, it will be seen that in order to change from single to double entry, as of the close of any accounting period, it is necessary to perform the following operations:

1. To prepare a statement of assets and liabilities.
2. To make an entry crediting or debiting the capital account or accounts for the amount of the profit or loss.
3. To make an entry that will record on the books an account for each asset and liability shown on the statement of assets and liabilities.

Changing from single to double entry illustrated.—For the purpose of illustration, consider the case of A. Reid, who decides to change from the single entry to the double entry system of bookkeeping and whose statement of assets and lia-

bilities as of January 31, 19—, appears on page 472. The entry, as it would appear in the general journal, to record the change, follows:

General Journal, January 31, 19—

		Cash		6,885	00		
	√	Accounts Receivable		1,500	00		
		Merchandise Inventory		8,700	00		
		Furniture and Fixtures		125	00		
	√	Accounts Payable				6,550	00
	√	A. Reid, Proprietor				10,660	00
		To record the assets, liabilities and ownership of A. Reid in order to convert from single to double entry.					

It should be noted that the items checked (√) would not be posted, since accounts represented by these items already appear in the ledger.

A Trial Balance of the ledger of A. Reid, after posting the journal entry recording the change from single to double entry, would be as follows:

A. REID

Trial Balance, January 31, 19—

		Cash		6,885	00		
		J. Link		1,500	00		
		Merchandise Inventory		8,700	00		
		Furniture and Fixtures		125	00		
		Baldwin Manufacturing Company				6,500	00
		Tower Manufacturing Company				50	00
		A. Reid, Proprietor				10,660	00
				17,210	00	17,210	00

If a new ledger is to be used, it is understood that the complete journal entry illustrated would have to be posted.

Review Questions

1. What kind of accounts are kept under the single entry system?

2. Explain what is meant by the expression "single entry."

3. Can the bookkeeper take a Trial Balance from a single entry ledger? Why?

4. Name two books which must be kept in single entry bookkeeping. What other books are often kept?

5. How is the accuracy of posting tested in single entry bookkeeping?

6. How do you find the net profit or loss when books have been kept by single entry?

7. Strictly speaking, can a Balance Sheet be made for one whose books have been kept by single entry? What should his statement, showing assets, liabilities, and capital, be called?

8. Explain how you would change a set of books from single entry to double entry bookkeeping.

9. Name three disadvantages of single entry bookkeeping.

10. Explain the following statement: "In single entry bookkeeping, all facts are recorded; but not all facts are classified, as to debit and credit, for posting to the ledger."

Exercises

1. Use a general journal and a cashbook with columns as follows: *receipts side*—Net Cash, Sales Discount; *payments side*—Net Cash, Purchase Discount. Record the following transactions under the single entry system:

July 1, 19—. H. F. Wells began business, investing cash, $2,000; a stock of merchandise worth $3,000, and store fixtures worth $500.

2. Paid the Cort Realty Co. for July rent, $100.

3. Sold merchandise to L. R. Kelly, terms 2/10, n/30, $260.

6. Bought merchandise from J. T. Ring & Co., terms 20-day note, $500.

9. Paid cash for office supplies, $15. Gave J. T. Ring & Co. a 20-day note for their invoice of July 6, $500.

11. Sold merchandise to W. D. Adams, terms 2/10, n/30, $310.

14. Received a check from L. R. Kelly for invoice of July 3, $260 less 2%.

15. Paid salary of bookkeeper in cash, $40.
18. Sold merchandise to F. C. Bailey, terms 2/10, n/30, $390.
20. Paid sundry expense bills in cash, $9.50.
21. F. C. Bailey returned part of the merchandise sold to him on July 18. We credit him $40.
    Received check from W. D. Adams for invoice of July 11, $310 less 2%.
24. Bought merchandise from H. W. Foster, terms 3/10, n/60, $250.
26. Paid freight on goods purchased, $19.50.
28. Received cash from F. C. Bailey for balance due on his account, $350 less 2%.
29. Sold merchandise to L. R. Kelly, terms 2/10, n/30, $400.
30. Paid salary of bookkeeper, $40.
    Mr. Wells withdrew cash, $100.

(a) Post all entries to ledger accounts.

(b) Prepare a statement showing the net profit, or net loss, for the month of July. The inventories were: merchandise, $2,900; store fixtures, $450.

(c) Make the journal entry to record the net profit or net loss.

(d) Make entries necessary to change the books to a double entry system.

(e) Post the above entries, adding any new accounts needed.

(f) Take a Trial Balance.

2. H. N. Barry began business on May 1, 19—, with an investment of $5,000 cash. On June 30, his single entry books showed: cash, $2,400; accounts receivable, $1,965; accounts payable, $1,500. Other assets and liabilities were: furniture and fixtures, $200; notes receivable, $1,000; office supplies, $30; insurance prepaid, $50; notes payable, $900; merchandise inventory, $2,100.

Prepare a statement showing the net profit or net loss for the two months, assuming that Mr. Barry had withdrawn $75 cash on June 1.

3. Show the journal entry necessary to record the net profit. or net loss, on the books of H. N. Barry (question 2).

4. Show the entry necessary to change the books of H. N. Barry to a double entry system.

5. On April 1, 19—, E. P. Murray had the following assets and liabilities: *assets*—cash, $1,260.50; accounts receivable, $2,300; notes receivable, $1,200; merchandise inventory $3,850; store fixtures, $600; *liabilities*—accounts payable, $1,970; notes payable, $1,150.

Six months later, on October 1, his books, kept by single entry, showed: cash, $1,445.10; accounts receivable, $2,290; accounts payable, $1,885. Other assets and liabilities were: notes receivable, $1,350; merchandise inventory, $4,200; store fixtures, $540; office supplies, $25; prepaid insurance, $90; notes payable, $1,000. During the period, Murray had withdrawn $150 in cash.

Prepare:

(a) A statement (or statements) to show the net profit or net loss for the six months.

(b) Entry to record the net profit or net loss.

(c) Entry to change the books of Murray to a double entry system.

APPENDIX

APPENDIX

Commercial Terms Defined

Acceptance.—The name of an accepted draft; an agreement. by signature, to the terms named in the draft.

Account Current.—An open or a running account; a detailed statement of transactions between two persons or two firms.

Account Sales.—An itemized statement of sales and expenses, rendered by a commission merchant to his principal.

Affidavit.—A written statement made under oath.

Assignee.—One appointed by another to do some act or to enjoy some right; generally one to whom property is transferred for the benefit of the creditors.

Bankrupt.—Any person whose property becomes liable to administration under the bankruptcy laws.

Bill of Lading.—A receipt of a transportation company, containing an account of the goods shipped and the conditions of shipment.

Bill of Sale.—A writing given by the seller of personal property to the buyer.

Capital.—The investment in a business.

Certified Check.—A check that has been accepted by the bank on which it is drawn, thereby making the bank security for its payment.

Clean Bill of Lading.—One on which no objections have been noted by the consignee, for shortage, damage, or the like.

Clearing House.—An institution in a city where daily settlements are made between banks by the mutual exchange of checks, drafts, etc., the difference between such exchanges being paid in cash.

Collateral.—A security additional to the personal obligation.

Common Carrier.—One who undertakes the office of carrying either goods or persons for hire.

Co-partnership.—The voluntary association or joining of two or more persons in a business enterprise. The same as partnership.

Consignee.—The receiver of a consignment of merchandise.

Consignment.—A shipment of merchandise which is to be sold for the account of the owner or shipper.

Consignor.—The owner or shipper of a consignment of merchandise.

Copyright.—A right of control granted by a government to an author or a publisher.

Coupon.—A certificate of interest due, printed at the bottom of transferable bonds, designed to be cut off and presented for payment when the interest is due.

Credit Memorandum.—A notice sent to a purchaser stating that an allowance has been made for goods returned or for other causes.

Deed.—A contract under seal, usually transferring the title of real estate.

Depreciation.—A falling of value.

Dishonor.—A refusal to pay an obligation when due or to accept a draft when presented for acceptance.

Dividend.—The allotment to each stockholder in the division of profits.

E. & O. E.—Errors and omissions excepted.

Exchange.—The method by which debts are discharged without the actual transference of money; the rate at which such exchange can be made.

Extension.—An allowance of further time for the payment of a debt.

Forgery.—The writing of another's name, as a signature, with fraudulent intent, or the altering of a written document.

Freight.—Compensation paid for the transport of goods or other property; that with which anything is laden for transportation.

Goodwill.—The value, in a business, of established reputation or patronage.

Guaranty.—An agreement by which one person promises to make another secure in the possession or enjoyment of something; a security against loss.

Honor.—To accept a draft, or to pay it when due.

Income.—The total amount of the earnings and the receipts of money from all sources.

Installment.—A sum of money paid in stated portions.

Jobber.—A merchant who buys goods from importers and manufacturers, and sells to either wholesale or retail merchants.

Liquidation.—Act or process of settling debts.

Lease.—A contract, usually in writing, for the temporary possession of real estate or other property.

Letter of Credit.—A letter, usually issued by a bank, addressed to banks in foreign cities, directing payment of a stated amount to the holder. Such letters are usually carried by travelers.

Mercantile Agency.—An institution which obtains and furnishes information regarding mercantile enterprises, their financial standing, their business reputation and other data.

Net.—Clear of all charges or deductions.

Notary.—A public officer who takes acknowledgments of legal documents and protests paper for non-payment.

Open Account.—A running or an unsettled account.

Outstanding Accounts.—Book accounts remaining unpaid.

Overdrawn.—A term applied to a bank account when a check has been issued for an amount greater than one's credit balance.

Patent.—An exclusive right to an invention, issued by a government.

Power of Attorney.—A legal authority to act for another.

Premium.—The consideration paid for a contract of insurance; a sum or bonus in addition to the capital.

Protest.—A formal notice, issued by a notary to the endorser or the endorsers of a note or draft, of the non-payment of a note or a draft, or the non-acceptance of a draft.

Rebate.—An allowance for overcharge, for early payment, or for other reasons.

Receiver.—A person appointed by the court to hold in trust property which is the subject of litigation, pending the

suit; or one who is appointed to wind up the affairs of a partnership or a corporation on its dissolution.

Retail.—To sell in small quantities.

Sinking Fund.—A fund set apart for the redemption of bonds or for other specific uses.

Subscriber to Capital Stock.—One who has agreed to invest in capital stock in a corporation.

Subscriptions to Capital Stock.—The signatures appended to a document by which the subscriber agrees to purchase capital stock in a corporation.

Surplus.—The excess of the assets of a corporation over its liabilities and capital stock; the undivided profits of a corporation.

Valid.—Binding in law.

Void.—Not binding in law.

Way Bill.—A document containing a description and shipping directions of goods sent by railroad.

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